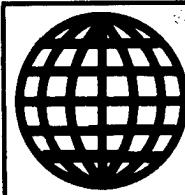


5 JULY 1990



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# ***JPRS Report***

## **China**

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## GENERAL

### Changes Foreseen in Global Strategic Situation

90CM0111A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 5, 8 Mar 90 pp 7-9

[Article by Chen Qimao (7115 0796 2021): "Major Alterations to the Postwar International Structure Following the Drastic Changes in Eastern Europe"]

[Text] Since the middle of last year, Eastern Europe has experienced some violent changes that have shook the postwar international structure that was based on the Yalta Agreement, and these changes are now threatening to disintegrate this structure. The entire situation shows that the world has now entered a period of great change.

The international structure is different from the so-called normal international situation, it is formed by the arrangement and distribution of the world's forces. The international situation can have numerous changes in a short period of time, but the international structure will remain relatively stable. In recent world history, the international structure has been formed on the basis of major shifts in the balance of power caused by a large-scale war or following widespread transformation involving many major nations. If there is no major shift in the balance of world power, then neither will the international structure change much.

There have been four major changes to the international structure over the last 200 years. The first international structure was formed at the Congress of Vienna, which was convened following the Napoleonic wars that swept across all of Europe. In this marathon conference lasting more than eight months (from October 1814 to June 1815), the powerful and victorious European nations of tsarist Russia, Austria, Prussia, and England, through some difficult bargaining, carved up Europe into spheres of influence and set up an international structure with Europe as the center of power. Metternich, the Austrian minister, by using his skill at maneuvering among various political groups and by using the problems that existed between the major nations was able to attain some good interests for his comparatively weak Austrian nation. This achievement is still regarded as the high standard by such Western strategists as Kissinger. This international structure based on the Vienna system lasted 40 to 50 years. During the 1860's and 1870's, a series of major world events occurred: The war between the North and South in the United States from 1861 to 1865 which abolished slavery in the South and paved the way for U.S. capitalism; the Meiji restoration in Japan from the late 1860's to early 1870's; the revolutionary uprising and unification of Italy in the 1860's; and the unification of Germany and its victory in the Franco-Prussian War of 1870-1871. These completely changed the international balance of power and created a new international structure. This international structure also lasted between 40 and 50 years; it did not completely collapse until World War I from 1914 to 1918. During

the Paris Peace Conference held from January to June 1919, the United States, Great Britain, France, Italy, Japan, and other strong nations divided up the world again, and established a world structure based on the Versailles Treaty. This structure had the shortest history, it disintegrated after only 20 years with the onset of World War II.

The current international structure was established following World War II by the three-nation conference held by the Soviet Union, the United States, and Great Britain in the Russian city of Yalta, the conference mainly divided up spheres of influence in Europe and Asia for the two main powers, the Soviet Union and the United States. Europe was divided in two, Eastern Europe fell under the Soviet Union's sphere of influence and Western Europe under the U.S. sphere of influence. It was decided at the Yalta Conference that Germany would be occupied by the Soviet Union, the United States, Great Britain, and France; following this the two countries of East and West Germany were formed. The Far East was also essentially divided into spheres of influence at the Yalta Conference. The Soviet Union recognized U.S. control of Japan and its interests in China, the United States agreed with the Soviet Union retaking the southern part of Sakhalin Island, acquiring the Kurile Islands, independence for Outer Mongolia, that Dalian would become a free port, Port Arthur would be leased to the Soviet Union as a naval base, and that China's Manchurian railroads would be jointly operated by China and the Soviet Union. Although dividing Korea at the 38th parallel went counter to the Yalta Agreement, it can still be considered a part of the Yalta setup. On the basis of the Yalta Conference, a bipolar world structure was established with the Soviet military bloc in the east and the U.S. military bloc in the west confronting each other.

In the 45 years following the war, the international situation has experienced some major changes. However, prior to the recent drastic changes in Eastern Europe, there were basically no changes in this international structure of the Soviet Union and United States confronting each other. During this time period there were several attempts and actions designed to smash this structure. The two largest of these events were the Berlin crisis of 1948 and the Korean war in 1950. After a year of antiblockade struggle against the blockade of Berlin, and following three years of intense warfare in Korea, both of these situations returned to their former conditions. In the 45 years since the war's end, the only major break of the Yalta pattern was the Chinese revolutionary victory which destroyed the spheres of influence held by the Soviet Union and the United States in China. In the 1950's and 1960's, although peoples' movements in Asia, Africa, and Latin America made a vast change in the world outlook, they did not lead to any basic changes in the postwar international structure. Due to many disputes, the European Security and Cooperative Conference held in 1975 showed that the East and West were unable to change the balance of power, and this basically

## INTERNATIONAL

ended with the stabilization and reaffirmation of the territorial divisions and various arrangements concerning Europe contained in the Yalta Agreement.

Recently, drastic changes have taken place in the countries of Poland, Hungary, the German Democratic Republic (GDR), Bulgaria, Czechoslovakia, and Romania that have seriously shaken the Yalta pattern. These six countries are all members of the Council of Mutual Economic Assistance (CEMA) and Warsaw Pact, and have all been under the Soviet Union's influence and control for a long time. The GDR, Poland, Hungary, and Czechoslovakia all have large numbers of Soviet troops stationed on their soil. Although, as of now, these countries have not withdrawn from CEMA and the Warsaw Pact, they have made tangible headway in casting off the control of the Soviet Union and are drawing closer to Western nations. With the Soviet Union tied up with economic problems and nationality disputes, its national power dropping drastically, and its influence in Eastern Europe falling rapidly, the Soviet bloc is actually in a state of disintegration. This represents a major change in the postwar international structure. Another major change has been the events in the GDR—the Berlin wall coming down and the idea of German reunification being brought up again. Presently, there is an intense publicity campaign being carried out by the Kohl government of West Germany and this has now become the hot political question of the world. The division of Germany is one of the most important events resulting from World War II. The combined population of East and West Germany totals 78 million. If Germany is united, its national strength would be equivalent to that of Great Britain and France combined, and its national output value would be close to Japan's. If German reunification is realized it will certainly cause the European structure to change, affect the entire world, and signify the collapse of the Yalta structure.

Another aspect we need to look at is that Europe, after all, is the focus of the Yalta structure, it is a strategic area fought over by the superpowers and a military confrontational area between the two military blocs. This kind of structural change will not be easy to accomplish. The Soviet Union is not likely to give up its superpower status or its influence in Eastern Europe. Although the Soviet Union currently is dealing with some tough problems, its latent power cannot be underestimated. The major powers of the East and West, including the Soviet Union, the United States, France, and Great Britain, have some deep concerns about the reunification of Germany. Even if reunification is the desire of the German people, the general trend is that the major powers must express support for the reunification, but they are really hatching schemes. The Soviet Union has set the condition that a unified Germany must be neutral, and is using this to crumble NATO and do away with U.S. power and influence in Europe. The United States has emphasized that a unified Germany must remain a member of NATO. France and Great Britain fear that a sudden rise and strengthening of Germany

might lead to a renewed effort by it to attain supremacy again in Europe. These two countries have a negative and reserved attitude about the unification of Germany. Belgium, the Netherlands, Poland, and other countries feel very uneasy about the reunification of Germany and feel they have been excluded from the reunification talks. Although reunification is currently gaining momentum, it will not be smooth sailing. Finalizing reunification (establishing a union) may require a fairly long period of time; therefore, it is predicted that the Yalta structure will not immediately disintegrate. The so-called "European family" and "Free European Alliance" will also probably not be established in the near future. Bush repeatedly said that the Malta summit would not be another Yalta, but the leaders of the two superpowers bypassed important matters such as troop reductions in Europe during the Malta summit. The summit essentially reflected the spirit of the Yalta Agreement.

At present, the world is in a period of transition from a bipolar world structure based on the Yalta Agreement to a multipolar world structure. During this period, on one hand there is truly an international trend of detente emerging, peace and development have become the main aspects, the cold war is heading toward an end, and the danger of a world war has been greatly reduced. However, on the other hand the United States and the Soviet Union are still opponents and remain the primary threat to each other, their rivalry is still being carried out, the Cold War has not completely stopped, and the threat of world war has not been totally abolished. On one hand, the U.S.-Soviet bipolar worldwide structure has begun to waver, with new power centers emerging and a multipolar structure in the process of forming and developing. On the other hand, the two major military blocs still exist, and militarily speaking, a U.S.-Soviet bipolar structure will remain for a long time. In one aspect, the primary form of international rivalry has changed from being an arms race to being a race for overall national strength in the areas of economics and technology. However, in another aspect, the arms race between the two superpowers is continuing with the race's emphasis changing from quantity to quality. During this transitional period, the old balance of power was suddenly destroyed, and due to a new balance not being immediately established, there are bound to be many unstable factors causing new unrest and many conflicts; included in these is the possibility that postwar territorial disputes will reemerge. This transitional period may continue for 10 years or even longer.

It is hard to predict what the specific characteristics and appearance of the new multipolar world structure and order will be. These will depend mainly on the following: 1) How the situation develops in the reform of socialist nations. 2) The changes in the balance of strength for major Western nations caused by unequal laws developed by capitalist nations, especially the rise of Germany and Japan, and the situation of economic adjustment in the United States. 3) The outcome in the race for overall

national strength. Comrade Deng Xiaoping has taken a broad, long-term view of this and one that is historically significant. He points out that the old postwar political system is on the verge of collapse and he has proposed that the new international political order based on the principle of peaceful coexistence replace the former order. Whether this new order can be realized in this century or early in the next century depends on objective conditions maturing and the joint efforts of the broad numbers of peace-loving nations and people.

The major contradictions in the current world that exist are still between the East and West and between the North and South. During this period, the most prominent problems will be between the East and West, with those between the North and South being relegated to a secondary position. In the coming period, problems between the East and West may erupt; these problems will continue to be caused by rivalry in the areas of economic markets, natural resources, investment, and spheres of influence. A situation will most likely arise where the United States, the Soviet Union, and Germany are dominant in Europe, and the United States, the Soviet Union, and Japan are dominant in the Pacific. There may be some new development in problems between the North and South. In recent years, we often spoke about the relaxation of tense situations and confrontations changing to dialogue when summarizing the present international trend toward detente. This refers mainly to the reduced level of military confrontation between the major powers (especially between the United States and the Soviet Union), which has greatly reduced the threat of a new world war. The above statement is undoubtedly correct, but using it to describe the present overall international situation does not seem fully accurate. This is because it does not reflect the conflict between the socialist and capitalist system, and that there remains some intense and complicated matters regarding the vast numbers of developing nations that are struggling to protect their national independence and are striving for economic development. Because the international situation is currently undergoing intense change and new unrest and conflicts are emerging, we must carefully watch the specific developments of these changes and make new decisions on a timely basis, we must not become rigid in our thinking.

#### Analysis of U.S.-European 'New Atlanticism'

90CM0153A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese No 2,  
13 Apr 90 pp 35-40

[Article by Wang Haihan (3796 3189 3211): "The 'New Atlanticism'—New Concept of U.S.-European Relations in the New Era"]

[Excerpts] The dramatic changes in the international situation have caused the United States to adjust its European policy, and has led to its proposal of a "new Atlanticism."

The basic idea in "new Atlanticism" is protection of U.S. interests in Europe, and it consists essentially of the following: Strengthening the various existing organizational systems of the West, especially NATO; strengthening in form of a treaty the U.S. relation with the European Community [EC]; expanding the role of the European Security Conference; and upholding four principles as restraints on German reunification.

The "new Atlanticism" is definitely not a panacea that will fundamentally eliminate all contradictions and differences between the United States and Europe. It is quite possible that some intricate changes will arise in the U.S.-European relations of the future. [passage omitted]

#### II

The fundamental idea in the "new Atlanticism" is protection of U.S. interests in Europe.

When explaining the "new Atlanticism" of the United States, Baker specially emphasized, "In the wake of all the changes in Europe, the methods of Western cooperation have begun to change. We must make a joint effort and gradually adopt a new structure in conformity with this new era." The U.S. periodical NEWSWEEK revealed that President Bush repeatedly used the term "new structure" in private talks with NATO leaders to describe his concept of a new structure in the Europe of the future. The main content of the new concept can be outlined as follows:

1. Beginning with long-range strategic interests, it proposes strengthening NATO's role, especially its political and economic role in response to the changed situation in Europe. The United States has all these years used NATO to contain Soviet expansion in Europe, brought about changes in the Soviet Union and Eastern Europe, and also, through NATO, led its European allies and directed European affairs. To avoid any ill effects on U.S. interests by the present instability of the European political situation, the United States regards the continued existence of NATO as necessary to play a "stabilizing role." The United States put forward the following guiding principles for NATO: First, the continued U.S. presence in Europe. Bush has repeatedly assured his West European allies that the United States will still be a force in Europe and will continue to participate in the future affairs of Europe, as well as in the joint U.S.-European defense of Europe. Second, strengthening the political and economic role of NATO. In view of the new situation in which the military role of NATO is rapidly declining, Bush has proposed to change NATO into a political organ that can constitute a new European security organization and that can "promote human rights, democracy, and reform in the East European countries," as well as become "a most effective means of encouraging peaceful reconciliation between East and West European countries" and play a more effective role in the political and economic spheres. Baker has furthermore suggested in more specific terms to set up inside

NATO an arms control examination and advisory organ to carry out the "ever more frequent consultations" on regional conflicts and on such questions as controlling the spread of missiles, nuclear, and biological weapons, to "establish economic and political relations with Eastern Europe, and to intensify dialogue and cooperation with the Warsaw Pact." The United States has obviously realized that should NATO one day become a very loose organization, with the relaxation in the international situation and the weakening of the Yalta organization, it would reduce U.S. influence on European affairs. It is for this reason that the United States, through a reorganization of its bond with Europe, which is mainly NATO, tries to endow NATO with a broader political and economic mission. In this way the United States would be able to gradually reduce the military obligations that burden NATO, at the same time consolidate and further strengthen its leadership position, and utilize NATO to bring Western Europe's policies vis-a-vis the Soviet Union and the East European countries in line with U.S. intentions, thus preventing them from each go its own way. Moreover, the United States still hopes to utilize NATO to exercise a certain restraining effect on the FRG, warning the FRG in its capacity of member of NATO and of the EC that it must not solve the problem of German reunification outside of this system. The reform of NATO is therefore a step of vital importance in the "new Atlanticism" scheme.

2. Attempting to further deepen the relation between the United States and the EC. Even though interests differ just as between the 12 members of the EC, and although there are still various contradictions in establishing the unified internal European market, the establishment of a large European market by the end of 1992 is, after all, the irresistible trend of the time. Following establishment of the internal large market, the economic power of the West European countries is bound to further increase and may seek to play a correspondingly larger political role. The United States has clearly realized this and has therefore changed its former critical attitude toward the EC by indicating that it will regard the EC as an equal partner in the economic and political fields. In his speech, Baker not only expressed the hope that "cooperation between the two sides of the Atlantic will advance in step with European integration and with the structural reform," but has furthermore pointed out that it is necessary to "greatly strengthen in the form of a treaty or in some other form" the institution of mutual consultations. He also suggested at the EC-U.S. annual meeting that there be more periodic mutual contacts on questions of foreign policy. The true intention of the United States is to ensure, through the establishment of direct and special relations with the EC—this "economic pillar in relations between both sides of the Atlantic"—a legitimate position for the United States to participate in European affairs. In this way it will be possible for the United States to exercise greater influence on political matters in the EC and also to prevent this organization from adopting economic measures in the future that are detrimental to the United States. Moreover, since the

United States lacks sufficient financial resources, its ability to assist Eastern Europe is quite inadequate for what it would like to have done by way of assistance. Thus the United States hopes it can "borrow" the economic strength of the EC to achieve integration of Eastern Europe into the Western market economy and to accelerate this process.

3. Using the European Security Conference as a bridge between East and West Europe. In the past, the United States had mainly used the European Security Conference, an international organization participated in by 35 Eastern and Western countries, to exercise pressure on the Soviet Union in matters of human rights. As the European situation has now drastically changed, Bush hopes "the European Security Conference will play a much larger role in Europe's future development." Baker suggested that the function of the European Security Conference be raised to become "the most important forum for East-West cooperation." It is obvious that the United States realizes that although huge changes have taken place in the Soviet Union and the countries of Eastern Europe, the situation contains many elements of instability, and that it is still difficult to forecast whether developments will move in the direction which the United States hopes for. The United States intends to use the European Security Conference to coordinate the standpoints of the West in relation to the Soviet Union and the countries of Eastern Europe in questions of European security, to handle the matter of German reunification within the framework of the European Security Conference, emphasizing that German reunification must observe the various principles laid down in the Helsinki Final Act, also to exercise ideological influences on, and engage in ideological infiltration into the countries of Eastern Europe and the Soviet Union, and as a consequence achieve its objective of controlling the changes in the European situation.

4. A clear statement of four principles to govern and restrain the process of reunification. German reunification is a problem left over from World War II and never settled. On 28 November 1989, Helmut Kohl, chancellor of the FRG, put forward a 10-point program for the establishment of a German federation and concerning the problem of German reunification, which brought the problem of German reunification back onto the political agenda. The United States has clearly realized the great importance of the German reunification problem, and that it affects all East-West relations and the entire European situation. The United States has therefore shown a very cautious attitude. The United States is also in favor of bringing European and German disunity to an end, but Bush and Baker have repeatedly referred in their speeches to four principles which had been put forward by the United States on 29 November 1989, to be observed in the question of German reunification. The principles emphasize that German reunification is not solely a matter of the German people, that Germany must "give full consideration to the legal role and responsibilities of the allies," that the process of reunification must not be rash and hasty, but must be a

"peaceful and gradual one," and must observe the provisions of the Helsinki Final Act with regard to the inviolability of national borders.

This shows the following to be the essence of the "new Atlanticism" of the United States: At this time when important changes are occurring in the divided state of postwar Europe, and trying to prevent the situation in Eastern Europe from getting completely out of control, the United States intends to consolidate and develop the results of the "peaceful evolution" that has occurred in Eastern Europe, as well as to strengthen the existing structural organization of those enhance its right to speak in European affairs. In brief, the United States intends to protect its political, economic, and military strategic interests in the new organizational system of future Europe and to preserve the leading position of the United States in the Western alliance.

### III

Pursuit of the "new Atlanticism" by the United States is bound to have an important impact on future U.S.-European relations.

1. In recent years, mutual common interests and cooperation between the United States and the Soviet Union have increased. To prevent the two superpowers from conducting diplomacy over the heads of all other countries, to ensure their own security interests, and to play a greater role in European affairs, the West European countries frequently emphasize their own principles and standpoints on important questions concerning the present European situation in order to give prominence to West European demands and interests and to restrain and influence the United States and the Soviet Union. For instance, on 18 November 1989, on the eve of the Malta summit meeting, the 12-country EC held a special meeting of heads of governments in Paris for urgent consultations and for coordination of standpoints with regard to the European question, in particular the East European situation, also to indicate their own attitudes as to Europe's future, so as to influence and give impetus to Europe's present situation, and at the same time to exercise influence on the U.S.-Soviet summit meeting. Closely following, on 8 and 9 December 1989, all member nations of the EC met for the 42d regular meeting of the Council of Europe in Strasbourg, France. At that meeting, the heads of state discussed strengthening Europe's internal integration and the further coordination of views on a joint policy toward the Soviet Union and Eastern Europe; they also issued a statement on German reunification. The meeting particularly emphasized "strengthening the EC and accelerating movement toward a united Europe that will conform to the interests of all European countries." President Mitterrand of France voiced his approval of the conference results, calling it "a large step toward European integration." A struggle has now already started between the United States and Europe in the competition for dominant position in European affairs. It is no wonder, therefore, that Henry Branden, a research fellow of the

Brookings Institute in the United States, pointed out in his "Beyond Containment," that for the United States the way to handle relations with its European allies "will become much more difficult than handling its relations with the Soviet Union."

2. As to the "new Atlanticism" enunciated by Bush and Baker, because of the differences of interests and physical circumstances as between the United States and its West European allies, there is also no complete uniformity of attitudes toward the "new Atlanticism."

With regard to that part of the "new Atlanticism" which relates to the stand to be taken against the Soviet Union and the countries of Eastern Europe, the countries of Western Europe generally adopt a more accommodating attitude. However, as to the future of NATO, the idea of some countries is that NATO must be retained. France has clearly and definitely expressed that it is against granting NATO a larger sphere of powers. The French Minister of Foreign Affairs, Roland Dumas, publicly stated at the meeting of NATO foreign ministers on 14 December 1989 that NATO can only be a "military federation of a defensive nature," and must not discuss political and economic questions, and that the functions of NATO and those of the EC must not be mixed up in the course of developing the new order in Europe. In his informal meeting with President Bush on 16 December on the Caribbean island of St. Martin, French President Mitterrand reiterated that it is premature, before changes in Eastern Europe have reached full fruition, to contemplate changes in NATO's functions as a defensive organization, and that coordination between Europe and the United States may be increasingly conducted within the scope of the European Security Conference. In addition, France is also concerned about the proposal of the United States to normalize U.S.-European relations in form of a treaty, which will enable the United States to control the developmental processes of the EC, and thereby gain a way for its direct and legitimate participation in European affairs. In consideration of these circumstances, the struggle, which has already begun under the new situation between the United States and Europe for and against such controls, will continue and intensify in future.

3. The question of German reunification is now a matter of general concern for the United States and for the West European alliance. In recent years, friction has occasionally occurred between the United States and the FRG. Presently, on the question of German reunification, the United States has indicated that it has no intention of obstructing the reunification process, but has emphasized that it must be accomplished gradually, in a democratic way, and within the framework of NATO and the European Security Conference. When Baker stated the four principles for German reunification, he also objected to the fact that the FRG, without prior consultation with the United States, had hastily proclaimed its 10-point program. Later, Baker again visited the GDR, and the four ambassadors of the United States, the Soviet Union, Great Britain, and France held a meeting

in West Berlin for a discussion of the German reunification problem. This year in the middle of February, when the foreign ministers of NATO and of the Warsaw Pact met at the international "Open Sky" conference in Ottawa, Canada, the United States proposed that German reunification proceed in two stages. When Chancellor Kohl of the FRG visited the United States on 24 February, the United States again made it clear that it hoped that Germany will remain a member of NATO and of the EC after reunification. The United States also emphasized that the future Germany should be part of the military organization of NATO, and thus not repeat the "French model," that is, join the political alliance without being a member of the military alliance. The reason for this emphasis on the linkage of a united Germany with NATO is that the United States is afraid Germany may turn neutral and NATO thereby lose one of its effective pillars of support. Should NATO at any time in future break up, there would be no way for the United States to continue its predominant role in European affairs. Moreover, controlling Germany through NATO can prevent Germany from becoming a military power strong enough to harm U.S. interests. To keep the reunification process free from interference by the great powers and to enhance Germany's own right to speak in this matter, the leaders of the FRG gave particular attention to consultations with the GDR. Chancellor Kohl also visited the United States and the Soviet Union, expounding his ideas on German reunification and explaining at every occasion his methods of resolving some of the related problems. At the same time that the FRG is trying to accelerate the process of reunification, it is also trying hard to dispel anxieties of other countries and giving due consideration to their interests. Because of the strong economic strength of the FRG and its particular geographical location, none of the other West European countries can compare with the FRG, but this fact is also reason for them to be anxious. Especially now, with the fast developments between the two Germanys and the very obvious quickening pace of German reunification, the importance of the FRG is becoming increasingly conspicuous. This determines that the United States, while preserving its traditional relations with Great Britain and France, will attach an increasing importance to strengthening its political consultations with the FRG and to developing a special relationship between the United States and the FRG, so as to have an influence over the progress and speed of German reunification.

As far as the other West European countries are concerned, they feel uneasy about the impact on NATO and the EC of a future reunited "German giant." They not only fear a disturbance of the territorial and power balance in postwar Europe, but also fear that a powerful Germany will in future pose for them a political and economic challenge. At the Strasbourg meeting of heads of state of EC countries, there was therefore a long and heated discussion of the German reunification problem. Although all EC member countries, in addition to the FRG, agreed in their political declaration that the

German people had a free right of self-determination, they added various restrictive conditions. They demanded that reunification "must proceed based on global and reliable methods, must uphold the principles laid down in the Final Act of the European Security Conference, and that this process be in accord with the prospect of future European integration." At present, the foreign ministers of the United States, the FRG, the UK, and France hold frequent consultations. The U.S. proposals regarding the future military position of Germany has received the support of the UK, France, Italy, and other countries. Because the question of reunification does not concern just the interests of the two Germanys, but also affects the security and strategic system that had been established after World War II, as well as the future prospects of Europe, various differences of opinions and frictions are bound to frequently arise and to arise increasingly in future.

To sum up: The dramatic changes in the overall international situation have shaken the foundation of the alliance between the United States and its West European allies as never before, and has at the same time introduced into the European situation many latent factors of instability. To cope with the new challenge, the United States promptly put forward a new concept of smoothly regulating its relations with the West European countries, namely, on the one hand, to bring the policies of the West European countries vis-a-vis the Soviet Union and the East European countries in line with U.S. policy, and, on the other hand, to attempt to control all developmental changes in the European situation, and to maintain U.S. leadership in European affairs. However, the "new Atlanticism" is not at all a panacea that will eliminate all U.S.-European contradictions and differences. Whether the European situation will develop the way the U.S. wants it to develop, or whether the United States will be able to maintain and develop its partnership relation with Western Europe, as frictions and accommodations will become more frequent, all these matters are not completely under the control of the United States alone. There is the possibility that some intricate changes will occur in future in U.S.-European relations.

#### U.S.-USSR Troop Agreement Reached at Ottawa Meeting

90WC0066A *Beijing SHIJIE ZHISHI [WORLD AFFAIRS]* in Chinese No 6, 16 Mar 90 pp 7-8

[Article by Zhou Aiqun (6650 1947 5028): "Troop Reduction Breakthroughs at the Ottawa Conference"]

[Text] On 12 and 13 February a meeting of the foreign ministers of NATO and Warsaw Pact countries was held in the Canadian capital of Ottawa. Although the conference was slated as a negotiation over the "open-skies" aerial surveillance issue, in the end major developments took place in two other areas as well. The first development is the U.S.-Soviet agreement on troop reductions in Europe. The Soviets agreed to a plan whereby both the

Soviet Union and the United States would each reduce their troop numbers in central Europe to 195,000, and the United States could augment its force with 30,000 additional troops outside of central Europe proper. This represents a new breakthrough in European conventional arms reduction talks. The second development is the acceptance of the "two plus four" plan proposed by West German Foreign Minister Genscher. Under this plan, the foreign ministers of six nations, the two Germanys, the Soviet Union, the United States, Great Britain, and France, would work together in tackling the security issues surrounding German reunification.

There is a general feeling that the Ottawa conference provides a blueprint for the future direction of Europe. In particular, the U.S.-Soviet agreement on troop reductions in Europe means that the Soviet Union will lose the superiority it has held throughout the 45 years since World War II, thereby altering the military balance of power in Europe. This is undoubtedly a victory for the United States, and it will give the Bush administration an even stronger position from which to tackle other unresolved arms control issues.

The issue of U.S. and Soviet troops in Europe lies at the heart of talks concerning reduction of conventional armed forces in Europe. According to a Western report, the United States has a total of 300,000 troops stationed in such central European nations as West Germany, Belgium, the Netherlands, Luxembourg, and Denmark, and such peripheral nations as Great Britain, Italy, Greece, and Turkey. The Soviet Union, on the other hand, has approximately 570,000 troops stationed in Poland, East Germany, Czechoslovakia, and Hungary. The struggle, both in public and in private, between the United States and the Soviet Union concerning the issue of troop deployments in Europe has already begun. At the start of the European conventional force talks held in March of last year, the United States and the Soviet Union both had their own proposals. The NATO nations proposed that both the United States and the Soviet Union limit their troop deployments in Europe to 275,000 each. The Warsaw Pact nations proposed that each nation limit the total number of troops deployed outside of its own national boundary to 350,000. The NATO proposal was clear from the start: They only wanted reductions in U.S. and Soviet troops stationed in Europe. The Warsaw Pact proposal, on the other hand, obviously implicated all troop deployments of the United States and other NATO nations that were outside of each nation's territory. The two sides were miles apart, and thus, although four rounds of talks were held, and varying degrees of success were achieved on other issues, neither side budged on the issue of troop deployment.

At the end of January this year, while presenting his 1991 budget proposal to Congress, President Bush proposed that both the United States and the Soviet Union limit their troop deployments in Central Europe to 195,000, and that the United States maintain an additional 30,000 troops in nations on the European periphery. On

9 February Soviet leader Gorbachev, while meeting with the visiting U.S. Secretary of State Baker, presented a counterproposal to President Bush's proposal: The Soviet Union and the United States would cut their troops in Europe to 195,000 each, and by "Europe" he meant "not Central Europe, but all of Europe excluding the Soviet Union." However, at the same time he pointed out that if this was unacceptable to the United States then the Soviets would go along with a plan whereby the two sides would each maintain 225,000 troops in all of Europe. On 12 February President Bush flatly rejected both versions of the proposal. In explaining why the United States should hold a slight edge in European troop deployments, President Bush said, "We are separated from Western Europe by a large ocean." On that same day, the Soviets quickly made a concession, agreeing to a plan whereby the United States and the Soviet Union would each maintain 195,000 troops in Central Europe. As a consequence, the Soviet foreign minister ultimately agreed to the U.S. terms at the Ottawa conference.

Looking back over the history of the European conventional forces talks leaves one thinking of many things. At the Central European arms control talks in October of 1973, NATO stressed how the Warsaw Pact enjoyed a superiority in conventional forces and thus why it was necessary that cuts be "symmetrical," in equal proportions. The Warsaw Pact, on the other hand, caets, in fact, are accepting a new unequal principle, namely, they have gone from agreeing to unequal reductions to agreeing on unequal troop maintenance.

We can see from the changed attitudes and stances of the United States and the Soviet Union on the issue of European force reductions that the United States has seized the initiative in arms control and scored several points. The Soviet position is weakened and major concessions have been made.

On the Soviet side, Gorbachev is pressed to make cuts in military expenditures in order to alleviate his serious domestic economic difficulties. At the same time, with the massive changes in Eastern Europe since last year, countries like Czechoslovakia, Hungary, and Poland have been demanding that the Soviets withdraw their military forces or else cut back on their military presence in those countries. It would be best for the Soviets to take the troops that they are being forced to unilaterally withdraw from Eastern Europe and put them on the table of the European conventional force reduction talks and withdraw them concurrently with U.S. withdrawals according to the agreement. This could legitimize the deployment of the 195,000 troops, temporarily keep the Warsaw Pact together, and allow the Soviets to keep a check on post-unification Germany. The Soviets are fully aware that this agreement is unfair, but given the pressures they have both at home and abroad, this is a bitter fruit they must swallow.

On the United States side, this agreement could allow them to kill three birds with one stone. First, it could

further spur East European nations to wrest themselves free of Soviet control and influence, and ensure that the United States acts as a "catalyst for European peace" while maintaining its presence there. Second, it could take advantage of this to "help out Gorbachev," giving him the chance to become an apparent initiator of troop withdrawals from East Europe instead of the passive role he is in now, and allowing him to withdraw with dignity. Third, it allows the United States to allay criticism about its domestic economy and its stance on arms reduction.

This U.S.-Soviet agreement on troop reductions in Europe represents a positive step in the direction of arms control. In the short term, it will spur further progress in European conventional force reduction talks. After numerous rounds of haggling over conventional force reductions in Europe, parity or near-parity has been achieved with regard to tanks, artillery, armored personnel carriers, aircraft, and helicopters. And this resolution of the problem of U.S.-Soviet troop deployments in Europe sweeps away any obstacles to an agreement on conventional force reductions in Europe within the year. In the long term, the United States will withdraw 80,000 troops from Europe, and the Soviet Union 380,000, and this will greatly reduce the numbers involved in the military standoff between NATO and the Warsaw Pact nations, and will aid in the establishment of a low-level military security system for Europe.

Granted, with this concession, the Soviets will have tipped the balance of power toward the United States and Western nations. What this portends for Europe, and indeed the strategic makeup of the whole world, is something that everyone will be watching closely.

## UNITED STATES

### Analysis of Bush's 'New Atlanticism'

90CM0135B Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 7, 8 Apr 90 pp 6-8

[Article by Ding Xinghao (0002 1630 6275): "New Atlanticism—The United States' European Policy in the Nineties"]

[Text] On 22 March U.S. President Bush submitted to Congress an annual report on national security strategy. The fact that the key point in it was to give priority consideration to European policy is not difficult to understand. Europe has always been the key point of U.S. global strategy, and the changes in the situation in the Soviet Union and Eastern Europe over the past year have been what the United States has long dreamed of, but there is also cause for unease. On the one hand, some indeterminate factors exist in the changes in the Soviet Union and Eastern Europe. On the other hand, the disintegration of the Eastern Bloc, the abating of the Soviet military threat, and the putting of the question of German unification on the daily agenda has caused in Europe the beginning of the most major structural change since the war. If the United States doesn't handle

these issues well, it could be removed from the European continent and lose its economic, political, and strategic interests there, even causing the European situation to become unbalanced and thus affect the overall situation in U.S. global strategy. Thus, since December of last year, both President Bush and Secretary of State Baker have time and again declared they want the establishment of a new mechanism for cooperation between the two shores of the Atlantic. After several months of adjustment and supplementation, a new idea for policy toward Europe, with the goal of creating a "united and free new Europe," is being formed.

### Cornerstone for Establishing the New Europe

The magnitude and the speed of the changes in the situation in the Soviet Union and Eastern Europe since the end of last year made U.S. Secretary of State Baker say that "no one foresaw them." He also admitted that the changes were not equivalent to stability, and that the United States must "handle itself well and deal with them properly." In fact the changes in the European situation have brought more problems than they have solved, and the problems are even more thorny. The Warsaw Pact will exist in name only, and the Soviet Union will no longer be as aggressive a threat to other countries as it was in the past; certain countries in Western Europe could begin to doubt the necessity for the continued existence of NATO and say that U.S. military forces should withdraw from Europe; and so on and so forth. Once the European situation gets out of control, there will occur a major change in the relations between the two shores of the Atlantic, and the U.S. position in the Western alliance will be shaken. Without a doubt this is a challenge of "most critical significance" to current U.S. security strategy and foreign policy. It was against this background that "new Atlanticism" arose at the historic moment.

The so-called "new Atlanticism" means that, following the changes in the European situation, the United States and Europe should jointly make an effort to design for the Western alliance a new system that will be gradually put into effect. On 1 February, in a statement by U.S. Secretary of State Baker to the Senate Foreign Relations Committee, he said more clearly that NATO, the European Community, and the Conference on Security and Cooperation in Europe [CSCE] must be given new content and functions, becoming the "cornerstone" for establishing the new Europe.

For more than 40 years NATO has been a military bloc that has always been an instrument of U.S. containment policy, and has been a deterrent force aimed at the Soviet Union. Now the Bush administration wants to transfer it into a new European security structure, reduce its military forces, and increase its political composition. Specifically, first of all, in the situation in which NATO sets up a standing body for arms control and supervises the execution of a disarmament agreement, it especially must be used to reduce conventional forces. The next thing is to change the past functions that were aimed

mainly at the Soviet Union and Eastern Europe and have them play a greater role in solving the problem of regional conflicts. The final thing is to make NATO a forum for cooperation between the countries of the West, and through it enhance dialogue with the countries of Eastern Europe. This tentative plan of the United States can reduce its military obligation to Western Europe without causing the disintegration of NATO. It can also ensure the United States' leadership position in NATO and its display of greater effect and influence.

Secretary of State Baker has stressed that the United States consistently encourages Europe to become an organic whole and supports the European Community's formation in 1992 of a unified market. But he also asserts that what the United States seeks is a European Community that willingly cooperates with other countries, and that the EC and the United States should open their markets to each other. The Bush administration not only wants an organic Europe to adopt an open policy that lets the United States, without restriction, take part in economic activities, but also proposes that, through treaties or other forms, the United States "enjoy a political position in the organization" of the European Community. In this way the United States can be perfectly justified in taking part in the European Community's internal affairs and in exerting influence on it, preventing the great unified market to be formed in 1992 from carrying out protectionism against the United States. In addition, the United States can go on to make use of the economic forces of the European Community, and, in the name of cooperation, further promote economic and political reform in Eastern Europe, in the end setting up a "new Europe" in which Eastern Europe and Western Europe are unified on the pattern of the European Committee.

The Bush administration thinks that up to now only one organization has been able to contain the 33 countries of Eastern Europe and Western Europe, as well as the United States and Canada, namely, the CSCE, and that it must play an even greater role, becoming the most important venue for cooperation between East and West. Now, first of all, the "three baskets"—security, economy, and human rights—plan stipulated in the CSCE's "Helsinki Agreement" should be replenished with enriched substantive content. Baker also proposed that the 10 guiding principles formulated by the CSCE for relations between the relevant countries be used as a compass for the West in dealing with, in the generation after the end of the policy of containment, the "reforming" or "weakening" of U.S. influence in Europe; faced with trends difficult to reverse—the rise of the European Community as a political force and the unification of the two Germanys—the United States will do all it can to continue to maintain the U.S.-European alliance and enhance the U.S. leadership position in it, in order to feel the pulse of the European forces during the process of division and reorganization and to have more say in this process.

#### Under the Premise of Guarding Against Indeterminate Factors

During the process of formulating its new strategy for Europe, the United States had to consider the factor of the Soviet Union. On 12 May last year, in a speech at Texas A&M University, President Bush proposed a new concept in strategy toward the Soviet Union of "beyond containment." He "welcomed the Soviet Union's return to the world order," but said that the Soviet Union must reduce its military forces, "dismantle the Iron Curtain," support the self-determination of East European countries, cooperate with Western countries in solving regional disputes, respect human rights domestically, achieve political polarization, and cooperate in solving the problem of global environment. In the short period of 10 months the Soviet Union, under Gorbachev's leadership, has about satisfied the above-mentioned demands made by President Bush. Without Gorbachev perhaps there could not have been today's "historic change" in Eastern Europe, or at least it would not have come so quickly. For this reason Bush has more than enough admiration for Gorbachev, and his support for Gorbachev has changed from hesitant to firm. However, it is difficult for the Bush administration to be optimistic about the Soviet Union's domestic situation. In fact, in the Soviet Union has one difficulty after another, and various contradictions are sharpening day by day. U.S. officials time and again point out the "indeterminate nature of the fate of the Soviet reforms," and worry that the failure of Gorbachev's reforms will cause a turn for the worse in the Soviet Union's domestic situation, thus adversely affecting Soviet foreign policy. Wolfowitz, U.S. undersecretary of defense, on 19 January of this year, in his published article "A New U.S. Strategy for National Security in the Nineties," expressed a similar worry. The United States hopes that the Soviet Union's reforms will succeed, but he thinks that the United States must also make good preparations to accept the reality of the failure of these reforms. Wolfowitz went on to stress that even if the Soviet Union's reforms continue to develop as the United States hopes, there is the possibility that it will face competition from the Soviet Union for a long time; only the form and degree of this competition will be different from those of the past. Even if the Soviet Union, in order to lighten its economic burden, cuts down on its arms, obviously it will not abandon its quest for the position of a great nation in the world and will continue to safeguard its global interests. According to the 13 February U.S. WASHINGTON POST, the Bush administration, in an "estimate" in a document concerning the guiding principles for U.S. policy from now until 1997, believes the United States will still have, on a world scale, the Soviet Union as its main adversary.

Therefore, the Bush administration is now preparing for both eventualities in the development of the Soviet Union's domestic situation, and is adopting a dual policy. On the one hand, the United States must support Gorbachev's reforms so as to keep him in power and ensure that the Soviet Union has a comparatively stable

foreign policy and continues to implement the present policy for Eastern Europe, because any sudden change in the Soviet Union's domestic situation could adversely affect the Soviet Union's European policy to such an extent that new U.S. ideas on pursuing its European policy would be imperiled. On the other hand, whether Gorbachev's reforms succeed or not, the United States must guard against the Soviet Union's challenge and competition. As a result, the number of U.S. and Soviet troops stationed in Central Europe to 195,000 each was a part of what the United States is trying to get. At the same time, the Bush administration is determined, under the circumstances of low risk, to continue to maintain U.S. military strength, as was expressed in President Bush's "Report on National Security Strategy." This is to guard against any contingency, and its premise is to increase the predictable factors.

#### Framework for Achieving German Unification

U.S. public opinion calls the German situation, namely, the question of the unification of the two Germanys, President Bush's "greatest direct challenge." One year ago German unification seemed impossible, and until four months ago it had not been put on the daily agenda. Now some people think that late 1990 could be the "most opportune time" for achieving the unification of the two Germanys. Without a doubt, this will be a shock, no matter whether for Western Europe or Eastern Europe, and even for the United States. Each country's attitude toward this is different, but a common point is that, to different degrees, there are misgivings. This also further impels German unification to become the core issue in the new ideas in U.S. foreign policy.

With regard to the German people, there is no reason to censure the unification of people in line with the principle of national self-determination, but the worry is that after unification Germany's "potential will be excessively huge," and in particular there is the worry that Germany will pose a latent threat to the countries on its periphery, a worry that is not without reason. After World War II, the defeated Germany was split in two and great pains were taken to wall the two parts within the structure of the cold war. Speaking of West Germany, externally there was the Soviet threat and internally there were the U.S. troops stationed there, and it could not move. As for East Germany, it was awed by NATO's military strength, and internally it was restrictive, the principle of self-determination must be implemented. Second, after unification Germany must continue to ally with NATO and constantly enhance its ties to the European Community, and only a Germany that is unified in accordance with the West's democratic traditions can be accepted by the United States. Third, for the security of all of Europe the course of development in the direction of unification should be peaceful and should proceed in order, step by step. Fourth, Germany's final borders must conform to the principles of the Helsinki Agreement. These words by Baker were also aimed at Gorbachev, in an effort to dispel the idea of Germany becoming neutral after unification.

The course of German unification will certainly affect the overall situation on the European continent. When formulating its new policy on Europe, the Bush administration makes it the core issue to consider, and the issue is also the subject of a long-range strategic plan. U.S. official quarters again recently stressed that the United States hoped that a unified Germany will remain in NATO. In the U.S. view, the safest way is to have Germany "firmly take root in" NATO, so that it both maintains its ties to the West and is militarily restrained. From this it can be seen that, as the most important cornerstone of the "new Atlanticism"—NATO including Germany—besides continuing to prepare to deal with the Soviet threat, will display the function of monitoring and restraining the unified Germany, exerting military control over it, thereby lessening the worry of West European and East European countries about a unified Germany, and removing a big obstacle in the path toward a "united and free new Europe."

The objectives of the Bush administration's "new Atlanticism" are, in the new situation in Europe, to make use of the various former mechanisms and to adjust them in order militarily, while making appropriate reductions, to continue to maintain its existence, economically to share interests with the European Community, and politically to ensure its leadership position. However, the pursuit of "new Atlanticism" is bound to affect relations between the countries of Europe, and especially U.S.-European relations. Between the United States and Europe there will appear a pattern in which there is both identity and difference, both cooperation and competition. With regard to the United States' "new Atlanticism"—its new strategy for Europe—the majority of West European countries endorse the policy positions with regard to the Soviet Union, Eastern Europe, and the unification of the two Germanys, but express reservations or even dissatisfaction with some other policy principles. For example, France opposes the signing of treaties between the United States and the European Community, some other countries do not feel happy about a special relationship being established between the United States and Germany, and West Germany takes a reserved attitude toward the position in the new treaty concerning the unification of the two Germanys and its new role in NATO—all of which is not surprising. In brief, each country in Western Europe has its own plan, and in addition some circumstances in the Soviet Union and Eastern Europe are "still difficult to determine." Thus it can be foreseen that the United States will make further revisions and readjustments to its new strategy for Europe before really putting it into practice.

#### TV Marti Broadcasts Said To Defy International Law

90CM0135A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 16, 16 Apr 90 p 30

[Article by He Ta-jung (0149 1129 7127): "The U.S. Broadcast Invasion of Cuba"]

[Text] Washington—"TV Marti," which makes special broadcasts to Cuba and is sponsored by the "Voice of

“America,” began on 27 March, every day from 0345 to 0645, to send test transmissions to Cuba via an aerostat balloon in the sky above the Cudjoe Key Air Force Base in the State of Florida. U.S. Government officials and members of Congress said that “TV Marti” began broadcasts in order to beam to Cuba “relaxed and happy literature and art and sports programs” and “objective, impartial news programs.” If this is really the fact, why did the U.S. Government, five years after it began sponsoring special broadcasts to Cuba by “Radio Marti,” spend \$40 million to start up “TV Marti”? the weekly U.S. NEWS & WORLD REPORT spoke the truth when it said, “The Bush administration hopes to use television news and music to help do what the CIA-trained shock brigade as well as the 29-year economic blockade (imposed on Cuba by the United States) could not do—topple Fidel Castro from power.”

Since the United States’ successful invasion of Panama in December of last year, particularly after the Nicaraguan opposition party supported by the United States won the general election in February this year, the U.S. Government has taken military measures to keep the pressure on Cuba, diplomatic measures to isolate Cuba, and political measures to intensify its infiltration of Cuba in order to cause the collapse of Cuba’s socialist regime. “TV Marti” was begun under these circumstances.

Using broadcasts to socialist countries to infiltrate and subvert them is an old trick of the United States. As early as 1960, the U.S. “Radio Swan” incited opposition to the newborn revolutionary regime in the U.S. mercenaries’ invasion of Cuba’s Bay of Pigs. In March 1970 the “Voice of America” directly incited subversive activities inside Cuba, and the CIA instigated several short-wave commercial radio stations in Miami to incite splittist activities in Cuba. In May 1985 the United States started a special broadcast by “Radio Marti” to Cuba in order to confuse and poison people’s minds. Before and after last year’s Tiananmen counterrevolutionary rebellion in China, and in the period of drastic change in the political situation in East European countries, the U.S. “Radio Free Europe’s” and the “Voice of America’s” performances were even more striking.

According to U.S. press reports, a Cuban political exile in the United States named Jorge Mas Canosa not long ago was invited to be the chairman of the guiding committee for “Radio Marti” and “TV Marti.” Mas is the chairman of the “Cuban-American National Foundation,” the largest organization of Cuban political exiles in the United States. This organization is actually a political party, and it has drafted a “constitution” which it plans to put into effect after the overthrow of Cuba’s socialist regime; it has also formulated a “transitional plan.” Mas himself covets the throne of Cuba’s president.

The starting of broadcasts by “TV Marti” violate international law, because “TV Marti” usurps for its broadcasts the frequency of channel 13 of Cuba’s domestic

television broadcasts. In accordance with the convention of the International Telecommunications Union as well as the United Nations’ agreement on satellite television and treaty on outer space, the space used for radio technology is part of every country’s sovereignty. The brazen use of Cuba’s domestic broadcasting frequency channel by the United States is an act of naked violation of another country’s sovereignty. An editorial in THE NEW YORK TIMES said: “Based on international broadcasting law, if Cuba intends to use the same frequency channel as TV Marti... the law is on his (Cuban President Castro’s) side.” It added: Although the test broadcasts of “TV Marti” occupy Cuba’s frequency channel, they do so in the small hours, and “at this time Cuban television stations do not use this frequency channel for broadcasts.”

This act of naked violation of international law and another country’s sovereignty by the United States has been condemned internationally. The International Telecommunications Union has sent a letter to the U.S. State Department expressing concern at the starting of broadcasts by “TV Marti.” The foreign ministers of Mexico, Argentina, Brazil, Columbia, Peru, Uruguay, and Venezuela have expressed opposition to this action by the United States that damages hemispheric relations. The Peruvian foreign minister said, “What makes us feel uneasy is that this action (taken by the United States) violates international law, and international law is the basis for world peace,” and “(U.S.) political aggression grows with each passing day.”

This act of aggression by the United States was, of course, resolutely opposed by the Cuban Government, which denounced the starting of broadcasts by “TV Marti” as “telecommunications aggression,” and took tit-for-tat measures by vigorously jamming “TV Marti’s” broadcasts. An official of the U.S. State Department had to admit that so far the test transmissions of “TV Marti” have not been successful.

## SOUTHEAST ASIA/PACIFIC

### Increased UN Peace Role Envisioned in Cambodia

90CM0137A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 6, 23 Mar 90 pp 8-9

[Article by Tian Zhongqing (3944 0022 7230): “The Difficult Progress of Cambodian Political Settlement”]

[Text] After the International Paris Conference was suspended indefinitely last August without having reached any accord, the effort to achieve a political settlement to the Cambodian problem stalled. Nevertheless, the international community has not given up its push for a settlement to the Cambodian problem. Early this year, talks about strengthening the role of the United Nations and intermediation between nations involved in

the conflict again brought action to the effort to find a political settlement to the Cambodian problem.

However, because Vietnam and the Phnom Penh regime continue to cling to their stubborn position, and due to the complexity of execution by the United Nations of a leading role in Cambodia, progress in the effort to achieve a political settlement to the Cambodian problem will be very difficult in the future.

#### From the Evans Plan to the Five-Power Consultations

Last November, Australian Foreign Minister Gareth Evans proposed a peace plan which had as its core the strengthening of the role of the United Nations in achieving a Cambodian settlement, and Australian special envoy Michael Costello presented this plan to several nations involved in the conflict. This plan raised many new ideas about how to strengthen the role of the United Nations. The plan calls for the United Nations to take direct administrative control of Cambodia during the transitional period, and to be responsible for organizing free and fair elections. Just when it looked as if the Cambodian problem had run into a blind alley, the Evans Plan provided new hope, so it was accorded great importance and an enthusiastic welcome by the international community as well as the various factions in Cambodia. After the proposal of the Evans plan, the entire international community came to call for a resolution to the Cambodian problem based upon a strengthened role of the United Nations.

In order to take advantage of this new situation, deputy foreign ministers from the five permanent members of the UN Security Council carried out two rounds of earnest, down-to-business talks in mid-January and mid-February about two key issues: How to keep peace in Cambodia, and what administrative organs would be needed during the transitional period. Representatives from the five countries all felt that the active participation of the United Nations in the two problems listed above is an important part of their solution. Effective activities in which the United Nations could participate include verification of the withdrawal foreign troops, administering a cease-fire, stopping foreign military aid, and administering the concentration of the various armed factions at a designated location and their entrance into camps. Representatives from the five nations also discussed the establishment in Cambodia of a Supreme National Council, the position and function of UN administrative organs, and the two currently existing regimes. At the same time, the secretary general of the United Nations decided to establish a working group on Cambodia with himself as chairman. This working group will formulate emergency plans to respond to difficulties encountered by the United Nations in the course of its efforts to settle the Cambodian problem.

The proposal of the Evans plan and the five-power consultations raised people's expectations that the United Nations would play an important role in the

settlement of the Cambodian problem, because its prestige, experience, and influence are unmatched by any other international organization. The United Nations can play its greatest role in fund-raising, personnel mobilization, and coordination of activities. Particularly since the smooth settlement of the Namibian issue, the image of the United Nations throughout the world has improved. However, because the Cambodian problem has its own complexities, the difficulties facing the United Nations should not be underestimated. Some Western specialists estimate that it will take at least 13,000 people to carry out the mission of the United Nations in Cambodia, that they will stay approximately of a third round of unofficial talks on the Cambodian problem. The international community expressed its hope early this year during activities connected with the effort to settle the Cambodian problem that the ASEAN nations would retain a voice on the issue. Against this backdrop, the third round of informal talks in Jakarta on the Cambodian problem was held from 26 February to 1 March. The main item in the agenda was the issue of strengthening the role of the United Nations, and the objective was to pave the way for a resumption of the International Paris Conference.

The difference between the third Jakarta meeting and the International Paris Conference lay in the fact that Vietnam and the Phnom Penh regime were no longer opposed to letting the United Nations play a role in settling the Cambodian problem. However, the Cambodian resistance forces still seriously disagreed with Vietnam and the Phnom Penh regime about how the United Nations would actually perform its role. The three Cambodian resistance factions reiterated their position that United Nations international oversight organs and international peacekeeping troops should be sent to Cambodia to oversee and verify the Vietnamese troop withdrawal. They stated that the United Nations would be able to truly perform its role only after Cambodia's two current regimes have been disbanded, but the Vietnamese representative and Hun Sen stubbornly opposed disbanding the Phnom Penh regime, claiming that "disbanding the Phnom Penh regime would plunge the nation into chaos." They opposed letting the United Nations send peacekeeping troops to Cambodia, opposed the establishment of a temporary quadripartite coalition government, and refused to even discuss oversight to assure a genuine withdrawal of Vietnamese troops. With regard to the composition of the Supreme National Council, they stubbornly insisted on the principle of a two-party rather than a four-party composition, and they refused to clearly acknowledge Prince Sihanouk in writing as the highest leader.

Due to the stubborn position of Vietnam and the Phnom Penh regime, the Jakarta meeting became seriously deadlocked, and there was no choice but to extend the meeting, originally scheduled for two days. By early morning on 1 March, no agreement had been reached. What is more, Vietnam surprisingly portrayed itself as a savior and insisted on including a "denunciation of the

genocide carried out by the Khmer Rouge" in the final statement. Vietnam's ridiculous demand naturally was rejected by the resistance forces, and the Jakarta meeting, in which people had originally placed such high hopes, broke up in discord.

#### Future Direction of the Cambodian Problem

Last winter and this spring, from the proposal of the Australian plan to the five-power consultations to the Jakarta meeting, the international community did a lot of serious work to push for a comprehensive settlement of the Cambodian problem. These efforts show that the international community has an urgent wish to get rid of this hot spot in the Asian-Pacific region. It is also apparent that the countries involved have found more common ground regarding how to settle the Cambodian problem. Although the Jakarta meeting failed to achieve the expected results, the countries involved did not lose spirit on that account. Recently, representatives from the five powers carried out a third round of consultations about strengthening the role of the United Nations. Discussion of a "Namibian style" settlement to the Cambodian problem increased in journalistic and political circles throughout the world. It appears that there is great momentum in favor of making a strengthened UN role the basis of a Cambodian settlement.

As for how the United Nations can truly perform its role in the future, some far-sighted people feel that, since every party has agreed to put Cambodian administrative organs under UN control during the transition period, the two current regimes in Cambodia should disband simultaneously. If Cambodia gets involved with UN administrative organs without having first disbanded the two current regimes, a chaotic state in which all parties act as they please will inevitably arise. After the two regimes have been disbanded, the best course of action would be to set up a temporary quadripartite coalition government. Some parties believe that since this choice is fraught with difficulties, it might be better to establish a Supreme National Council and its subordinate organs if every party agreed to it. It would assist and provide consulting services for the administrative work and elections to be carried out by the United Nations. In addition, performing the role of the United Nations also involves several other key issues, such as the final fate of the four armed factions, and the Cambodian seat in the United Nations. The various nations involved in the conflict still have deep disagreements about many issues. Some other concrete issues have yet to be discussed in detail.

As for how to perform the role of the United Nations, although the issue is complex, if the parties involved show sincerity in dealing with the problem, a resolution will eventually be found. So far, the biggest obstacle to resolving the Cambodian problem has been the insincerity of Vietnam and the Phnom Penh regime.

The reason Vietnam and the Phnom Penh regime have been so stubborn is that they believe it is in their interest to prolong the current situation. After Vietnam announced its

"total withdrawal of troops" from Cambodia last year, it believed its status as an "international orphan" had been changed, and the Phnom Penh regime congratulated itself because the attitude of a few Western nations toward it had changed. Militarily, Vietnamese troops and Cambodian puppet troops carried out a big attack against the resistance forces in February this year. They claim to have recaptured the strategically important Svay Tong [Siwaitong (2448 1120 6639)] and to have attacked 13 resistance bases. They are attempting to use these things as bargaining chips in order to "speak from a position of power" in future negotiations. Vietnam and the Phnom Penh regime have recently taken an extraordinarily hard line toward the issue of the Khmer Rouge. They have echoed the cries of some Western media to prevent the "Khmer Rouge from returning." They are attempting to use this excuse to enable the Phnom Penh regime to win total control over Cambodia.

Because Vietnam and the Phnom Penh regime have been throwing wrenches into the works at every opportunity, it appears as though the process of achieving a political settlement to the Cambodian problem will be long and tortuous. At the same time the international community actively works to strengthen the role of the United Nations, it also has the responsibility to impress upon Vietnam and the Phnom Penh regime the need to wake up the course of international events, recognize the fact that four factions exist in Cambodia, give up their unrealistic dream of striking concentrated blows against one faction and picking off the remaining two factions afterwards, to sit down honestly at the negotiating table, and to enable the Cambodian problem to come clear of the quagmire as soon as possible.

## EAST EUROPE

#### Role of Czechoslovak Communists in Prague Spring

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[Article by Yang Hua (2799 5478): "The Prague Spring and Czechoslovakia"]

[Text] At the end of last year, a sudden hurricane stormed across Czechoslovakia and stirred up storm waves that shook the foundations of the government. The verdicts on the "Prague Spring" which had lain buried for 21 years were completely reversed; Dubcek and other leaders of the reform movement were completely exonerated, while Husak, Jakes, and other Communist Party of Czechoslovakia (KSC) leaders who in 1968 wielded power under the Soviet Union's "internationalist aid," were all as a body forced to abdicate. The leaders in the Soviet Union, Poland, Germany, Bulgaria, and Hungary who had sent troops to suppress the "Prague Spring" issued a formal statement admitting that the invasion was "interference in internal Czechoslovak affairs, and should be censured." The Soviet Government has already agreed to withdraw in stages before 1 July 1991 all the Soviet military forces that have been "temporarily stationed" in Czechoslovakia since

the invasion. It can be said that in the course of the difficult history of this country, a humiliating chapter in Czechoslovak history has finally been concluded. However, at this same time, fierce storms are assailing this nation's ship of state. The KSC has already lost its leadership position, and under the most trying conditions, is struggling to win back the trust of the people.

#### A Reform Which Broke the "Model"

The Czechoslovak reforms of 1968, which are called the "Prague Spring," were initiated and implemented in January of that year by a plenary session of the KSC Central Committee. Dubcek, who was elected first secretary of the KSC Central Committee at this plenary session, in setting forth the theory and program of the reforms, said that this was a "movement for the revitalization of socialism." The goal was to "establish a new socialist model that agreed with the conditions in Czechoslovakia and that was more in keeping with human sensibilities." The Czechoslovak leaders of that time felt that this was a responsibility and a mission which history had entrusted to this socialist nation with a relatively well-developed economy, well-educated and culturally endowed populace, and with rather long democratic traditions in society; it was also a contribution that the KSC should make to the international communist movement and the socialist cause. This is how the KSC openly offered a brave challenge to the "Soviet model" which historically had been the classic example.

What were the theory and guiding principles of the 1968 Czechoslovak reforms, and in what ways did they break from the "Soviet model?" According to the "action program" passed by the KSC in April 1968 and other documents, they can be reduced to the following three items.

1. The reforms addressed the problem of reforming the party leadership system. The KSC believed that its leadership system founded in the 1950's according to the "Soviet model" was a distortion of basic Marxist principles regarding the position and role of the party leadership. The KSC had taken a vanguard organization which had faithfully served the working class and all of the people and changed it into a power clique that rode roughshod over society and exercised dominion over the people. There is no questioning the leading position and role of the party, much less threatening it, but this does not imply that the party can monopolize all power and give any orders it wants; but what it mainly should work and struggle for is to democratically concentrate the will of the people, scientifically reflect the needs of the society, and put forward correct policies and recommendations at each stage in the development of the socialist society, and lead the people to carry out these proposed policies. Because of this, the KSC proposed that they fundamentally reform: the party and government being a single combined unit; the leadership system in which the party acted as the government and the leadership methodology of using administrative orders; and that they support a form in which the party's leadership is realized through its political and organizational work.

2. The reforms addressed the problem of reforming the state political system. The KSC proposed a socialist pluralization of the political system using an alliance of the nationalities as the basis. They believed that in a socialist society, there was a basic commonality of interests among all classes, strata, and groups, and that there also existed partial, non-antagonistic conflicts of interest. The essential character of a socialist society was, while guaranteeing the common basic interests of the whole society, to respect the different interests of each class, stratum, and group, and permit them to exhibit and realize their own individual interests through legal modes of action. The KSC emphasized that giving expression to the objective realization of this socialist, pluralistic political system was fundamentally different from a bourgeois multiparty parliamentary democracy. The system would be embodied in an alliance of nationalities led by the KSC and composed of a political party protective of the common socialist platform plus social organizations such as the workers', youth's, women's, and scientific and cultural associations. In this alliance of nationalities, individual political parties and social groups would not be opponents contesting for power, but cooperative partners in mutual consultation and supervision, forming a united government, and mutually participating in running the government.

3. The reforms addressed the problem of instituting a planned market economy. The KSC believed that the number of all types of innate relationships and objective ratios within the national economy was extremely great and the changes taking place were swift and would inevitably spontaneously play their role hidden behind all types of self-contradictory phenomena. No matter how detailed the state plan, it would still be very difficult to control the changes; it would be possible to adjust them only by means of the market. They proposed that the state plan primarily set forth long-range development strategies, stipulate certain major ratios and relationships, and set instructive targets for some special major products. Other than these, all other economic activities should be regulated through the market mechanism by employing tax revenues, profits, interest rates, prices, and other economic instruments. They emphasized that both producers and managers in enterprises must be relatively independent and that all industrial production and supply activities must submit to the test and supervision of the marketplace.

The above themes were the core of the 1968 reforms. The theoretical views and policy proposals put forward by the KSC can be analyzed and criticized depending upon one's standpoint, but still one cannot deny that the Czechoslovak Communist Party, being responsible for the people of the nation, had the authority to seek its own socialist model based upon its nation's situation. At that time the KSC leadership repeatedly emphasized that their reform program was formulated in accordance with the nation's historical traditions and social conditions, and would seek a path and model of socialist construction which conformed with their national conditions, and "was not intended to serve as a model for anyone."

### Uninvited "Help"

The 1968 reform program of the Czechoslovak Communist Party received the warm support and endorsement of the broad masses of party members, the cadres, and the people of the nation; the steps in reform was relatively steady. Naturally, a reform this broad and this thorough could not but meet with various problems and difficulties. At the time, the KSC leadership constantly emphasized that in order to push forward with the reforms, they must be alert for dangers coming from both the left and the right, they must overcome the resistance of the conservative forces, and eliminate the interference of liberalizing tendencies. For the KSC to remain steadfast in carrying out the reforms, they must be carried out under the leadership of the party, on the basis of the "Action Program," and in accordance with the principles of democratic centralism within the constraints of the constitution and the laws, in order to guarantee the socialist orientation of the reforms. Although at that time the entire Czechoslovak nation was enmeshed in a tense but excited state of mind, the newspapers were filled with sensationalistic reporting almost daily, and conferences were being held everywhere with exciting and impassioned debates, still, overall, social order was maintained, economic activity was normal, and the reform was gradually proceeding according to the plans laid out by the KSC.

However, just as the KSC was preparing to convene the 14th Representative Congress in order to expand reforms to their fullest extent, the Soviet leadership under Leonid Brezhnev, having applied all sorts of pressure on the Czechoslovaks without success, decided to carry out a military invasion and armed intervention in Czechoslovakia. A winter blast that would kill off the "Prague Spring" blew down from the Kremlin.

In the middle of the night of 20 August 1968, the deep roar of motors shattered the peaceful quiet of the Czechoslovak capital. Several Soviet transport aircraft approached the Prague airfield and requested permission for an emergency landing due to mechanical problems. However, once the planes were on the ground, Soviet military tanks and armored personnel carriers rolled out of the planes' cargo holds and immediately took over the airfield control systems by force. Following this, flight after flight of Soviet military aircraft brought in fully armed Soviet soldiers, who rapidly dispersed directly into the city and took control of every strategic site. At the same time, some 500,000 Soviet troops along with some Polish, German, Bulgarian, and Hungarian units drove across the Czechoslovak borders from every direction and took up their individual, appointed positions. In less than 24 hours the entire nation of Czechoslovakia was occupied by foreign troops. Military experts say that this was the largest military action, involving the largest and broadest deployment of troops, since World War II; it was also one of the most successful blitzkrieg-type actions ever undertaken.

In taking this action, the Soviet leadership proclaimed that they were "responding to the requests of Czechoslovak party and the socialist cause." However, the Soviet leadership could

not put forward a single Czechoslovak party or state activist who had asked the Soviets for this sort of help before the event or could substantiate the request after the event. Also, the Soviet military did not find any area inside the Czechoslovak borders which had had any sort of counterrevolutionary activity. Even the American carbine, which had for a time been produced as evidence of counterrevolutionary activity, proved, upon examination, to be a prop used in filming a movie. In actuality, once Soviet troops had entered Prague, the first thing they did was to speedily surround the KSC Central Committee building located on the banks of the Vltava River, arrest KSC Central Committee Secretary Dubcek, state Premier Oldrich Cernik, Chairman of the Congress Josef Smrkovsky, Chairman of the Nationalities Alliance Frantisek Kriegel, and other party and state leaders, take them prisoner, and deport them to the Soviet Union.

In the face of such naked military invasion and armed intervention, the KSC Central Committee, the government, the congress, and the nationalities alliance all issued statements exposing the fact that the military units of the Soviet Union and five Warsaw Pact nations "had illegally transgressed Czechoslovakia's borders without the knowledge of the Czechoslovak party and governmental organizations," and charging that this action "not only violated every principle of mutual relations of socialist nations but also broke the basic tenets of international law." The people of Czechoslovakia exhibited extraordinary courage and resourcefulness in the face of the invaders. They staged a general strike to protest the Soviet invasion, proclaimed that they recognized only the legitimate Czechoslovak party government, and resisted the schemes of the puppet government set up by the Soviets in Czechoslovakia. The representatives to the KSC 14th Representative Congress still secretly came to Prague despite the fact that the invading troops were stationed everywhere, and with the support of the working people, convened the Congress in the auditorium of a factory and elected Dubcek and other leaders of the reform movement to a new central leadership organization. Although this congress later was not recognized, it did, however, force the Soviets to treat Dubcek and the others as "honored guests" rather than as "prisoners" and "invite" them to the Kremlin to "confer" with the leaders of the Soviet Union, Poland, Germany, Bulgaria, and Hungary.

Internationally, all righteous nations and peoples expressed strong anger toward and opposition to the Soviet invasion of Czechoslovakia. On 23 August, Premier Zhou Enlai issued a statement. Speaking sternly out of a sense of justice, he denounced the Soviet's hegemonic actions in invading Czechoslovakia. The UN Security Council called an emergency meeting to discuss a motion to condemn the Soviet invasion. In a speech Czechoslovak Minister of Foreign Affairs Hayek refuted the Soviet claim that there had been any counterrevolutionary danger in Czechoslovakia or that the Czechoslovaks had asked the Soviets to send in troops; he pointed out that national internal order had been normally peaceful and that the Soviet military occupation had

transgressed Czechoslovak sovereignty, disrupted the normal functioning of the nation's society and economy, and reduced the country to an unprecedented state of chaos. However, by this time, the Czechoslovak government had been forced to discuss and resolve the situation which had developed in "the socialist household." Meanwhile, the United States and the West had given tacitly agreed that this was an event within the Soviet "sphere of influence." Thus the motion was revoked.

Discussions were held in Moscow between the Soviets and the Czechoslovaks from 23 to 27 August and the so-called "Moscow protocol" was signed. In this document, the Czechoslovak leaders were forced to accept wording that said that the Soviet occupation "was not interference in internal affairs," and that Soviet troops would withdraw after the situation in Czechoslovakia had been "normalized," which, in actuality, legalized the Soviet Union's armed intervention and military occupation. In April 1969 Husak supplanted Dubcek, took over as the First Secretary of the KSC Central Committee, and began the so-called "normalization" process. During this process, some 500,000 party members, or about one-third of the total KSC members, were purged, including Dubcek and other leaders; over 2 million people suffered varying degrees of injurious or prejudicial treatment. During this period, the Czechoslovak people had to extol the Soviet's "internationalist aid" in their speeches, and had to castigate the 1968 "counter-revolutionary incident" in their writing. Teachers working as doormen and Ph.D.'s sweeping the streets became the "distinctive feature" of this civilized country for a time. No one expected that the "normalization" process would continue for 20 years, and that the Soviet's "temporary stationing" of troops would exceed one-fifth of a century!

#### The Results of Two "Punishments"

The Soviet military incursion stopped the 1968 reforms led by the KSC in midcourse. The KSC was severely "punished" for seeking a socialist path which conformed to the special characteristics of the country. However, in the post-World War II history of Czechoslovakia, this was not the first time such a thing happened.

After liberation, the KSC under the leadership of Gottwald had promoted the idea that "the method employed by the Soviets to realize socialism is not the only possible method," and pointed out that "the classical teachers of Marxism predicted early on that in addition to making use of the Soviet state system, one could, in theory, use other paths to arrive at socialism." The "unique socialist path for Czechoslovakia" which the KSC promoted at that time was composed of two parts. One was to take advantage of the beneficial situations extant internally and internationally, maintain the united front of the nationalities formed during the course of the anti-fascist nationalities democratic revolution, win over the great majority of the people in the country, and through political struggle, using democratic methods, gradually disperse and isolate the bourgeois rightists and peacefully move toward socialism. The second was to use a

peoples' democratic system as a transitional form during the Czechoslovak movement toward socialism. In politics they would continue to cooperate with the bourgeois democratic parties, utilizing traditional parliamentary democracy to establish a unified government led by the KSC. In economics, they would nationalize industry and carry out planned management, allow the continued existence and development of private enterprises and the individual economy, and as far as possible, maintain their traditional international economic relations. These types of policies of the KSC were very successful during the period 1945-1948. In 1946, during the constitutional convention elections, the KSC was victorious and became the nation's number one party, and formed a united government with Gottwald as prime minister. In February 1948, the KSC overcame a government crisis created by the leaders of the right wing of the bourgeois political party, and further strengthened their party's leadership position.

However, just as the KSC was confidently traveling down their own unique socialist road, the shadow of the cold war clouds moved in over the country. With the two powerful blocs confronting each other in Europe, the Czechoslovaks had no choice but to rely upon and obey the Soviet Union. In 1948, after the intelligence service ousted the League of Communists of Yugoslavia, a great purge of the parties began to spread through East European governments. Gottwald was not only unable to continue traveling this unique path to socialism, but he had no choice but, carry out a huge purge within the KSC at Soviet demand. Over 70,000 party members and cadres suffered some type of harm in the purges, and even Gottwald's close comrade in arms, then KSC Central Committee General Secretary Rudolf Slansky and a group of other leaders were shot. Some of the leaders of the "Prague Spring," such as Congress Chairman Josef Smrkovsky, Nationalities Alliance Chairman Frantisek Kriegel, and President of the Republic Ludvik Svoboda were all jailed without cause. After sacrificing his own comrade in arms, Gottwald slid into inextricable psychological torment, and in 1953, after attending Stalin's burial, suddenly passed away some days later.

The two "punishments" seriously wounded the vitality of the KSC, and also greatly damaged the prestige of socialism in Czechoslovakia. However, history is impartial and without mercy. Husak, Jakes, and others supported the Soviet invasion as "internationalist aid" and turned their backs on the basic problem of the righteous cause of the people: sooner or later they would be abandoned by the people. However, they cannot finally represent the whole Czechoslovak communist movement; less still can they represent standards of socialist essence. Time has already washed away the mud that covered the "Prague Spring." As the KSC and the Czechoslovak socialist cause continue their inexorable advance, so too will all the grime that has been deposited on them be washed away. In the final analysis, the ranks of the Czechoslovak communists which produced exemplary fighters like Julius Fucik are the ranks of heroes. The Czechoslovak socialist cause for which they fought so valiantly, even if it temporarily meets with obstacles and difficulties, will never be defeated in the end.

**Socialist Democracy as Reflected in Enterprises**

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[Article by Chen Biwu (7115 1801 0710) and Wu Sha-  
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[Text] When socialist democracy becomes the political system of socialist countries, it is based primarily on the ownership and control of the materials of production, held commonly by the proletariat and the working people in different forms, with all the power to manage the affairs of the state and the society. This kind of democracy is qualitatively different from the democracy historically associated with the few instances of an exploiting class, for it requires the proletariat and the working people to be the masters of the state, and its historical mission is to realize and revolutionize reform of the whole society, to eliminate class distinctions and to realize the ultimate goal of human liberation. Consequently, the nature of such a state system essentially requires extending democracy to all the working people in order to establish a superior democracy, for it to realize the historical precedent of real majority rule. It can be said that democracy and socialism are inseparable, for there is no socialism without democracy. Just as Lenin said, "If socialism, in its victory, does not practice full democracy, it cannot maintain the victory it has obtained; instead, it will lead mankind toward a withering away of the state."<sup>1</sup> Because socialism deals with the affairs of all the people, if full democracy is not given to all the people to allow their initiative, motivation, and creativity to fully develop, it is pointless to talk about socialism's victorious achievements in modern construction, or the effective political dictatorship exercised by a minority of antagonists, or the death of the state, or the realization of communism, or the ultimate liberation of the working people.

The effect of socialist democracy on a socialist society is as essential and important as air and sunshine to the people. This is an obvious truth. After communist party members have assumed the reins of power, particularly after a phase of capitalist resistance had been suppressed, it is only right that socialist democratic construction be placed in a position of importance. Under socialist conditions, a strong legal structure that firmly establishes the master role for the proletariat and working people in the nation's political life, will allow them to enjoy the rights and obligations of democratic freedom to the greatest degree. Because of this, Lenin not only proposed building a superior socialist democracy early on, but after the victory of the October Revolution and conclusion of the civil war, he immediately suggested that ways be found to improve the work of government agencies under the soviet system to prevent bureaucraticism in agencies of the state. He pointed out that our worst enemy was a bureaucrat, and if we ask what can destroy us, it is just this. Therefore, as Lenin lingered on his deathbed, he was able to dictate an urgent message

contained in such essays as "How To Organize a Worker and Peasant Bureau of Investigation" and "To Have Less, But To Have Better Quality," that told the 12 communist soviets how to improve national government organization. However, Stalin did not follow Lenin's thinking to pay attention to establishing national democratic institutions, but chose instead to cultivate a large and highly bureaucratic national machine with centralized powers. Mao Zedong had early foreseen the fallacy of the Soviet Union's highly centralized management system. Therefore, early in the mid-1950's the CPC had put forth a strategy promoting democracy within the party and democracy for the people at the Eighth National Party Congress as the first step toward national democratization. In July 1956, in Zhou Enlai's discussion on "Dictatorship Must Have Continuity and Democracy Must Have Expansion," he cautioned the whole party "to be alert at all times and to attend regularly to broadening the scope of democracy. This point has qualitative significance."

Socialist democracy is the highest form of democracy in the history of mankind. However, when socialism is being implemented, phenomena counter to democratic principles frequently appear, which can lead to instability and great destruction of socialist democracy and a Great Cultural Revolution in the legal system. But two paradoxes remain without solution. First, what is called opening the right of enterprise management chiefly to enterprise administrative cadres (plant managers, etc.) can only resolve the relationship between the enterprise and the state. It does not resolve problems in the relationship between the enterprise and its workers, and that between the state and the workers. Cadres still represent the state's expressed ownership, so that the positions of the cadres as the "master" and of the workers as the "hired help" remain unchanged. Second, even if the management responsibility system can give the right of managing the enterprise's capital resources to different working groups at different shop levels, that can only resolve the egalitarian aspect of the problem in the distribution of consumption capital, but not the larger problem of capital assets. When the enterprise and the workers do not have the right of capital ownership, and a controlling mechanism within the enterprise is lacking to balance the proper ratio between the consumption and the accumulation funds, it is difficult to control the excessive growth of the consumption fund and improve the enterprise's accumulation of savings and the workers' participation in the master role. Therefore, to overcome shortcomings in the state ownership system, except for small enterprises that could be leased or contracted out to worker collectives or private individuals, we must give the enterprise and the workers some ownership in the capital assets at the same time that the right to operate large and small-scale enterprises owned by the state is opened up. Then how much ownership should be opened up to enterprises and workers, and what form should it take? According to China's present stage of economic development, the present income level of the workers, and the principle

that ensures the state's necessary centralized power and the people's role as the master, we think that for most enterprises the state should retain 50 percent of the original capital resources (owned by society as represented by the state), open up 30-40 percent to the enterprise (owned by the collective), and open 10-20 percent to individual workers (this opening up should be an orderly compensatory process). In a commodity economy with massive socialized production, because of the indispensable nature of mechanical facilities, the best expression of capital ownership is in the form of stock ownership and a group shareholding system. What is called a group shareholding system refers to a shareholding group formed within an enterprise according to occupational division of labor and the principle of "free union," and this group or collective participates in a stock company formed after reforms have been made in the state ownership system. In the reformed state ownership system, the state holds the controlling shares, with the rest held by the enterprise (the collective) and participating workers.

It is not necessary to state that, in such writings as *The Communist Manifesto*, Marx and Lenin advocated seizing all capital from the capitalist class and concentrating all tools of production in the state, that is, in the hands of the ruling proletariat. But the state ownership system advocated by Marx and Lenin exists only in principle. On the contrary, they also declared at the same time that it will be a system of socialist ownership in a united body of free individuals that will replace what exists in the old capitalist class society where classes are in opposition to each other. According to the theory of the state as propounded by Marxism, after the proletariat has seized political power and controls the state's economic lifeline, it should not lose the opportunity to gradually change the state ownership of enterprises into that of social ownership. It is only through a form of social ownership that the right of ownership for assets nationalized in the beginning can be transferred gradually, with their control, into the people's hands. This way, the people will truly enjoy the rights of ownership and control of the assets of production. Without doubt, this is the proper line for Marxism to take to broaden democracy, to basically treat bureaucraticism, and to hasten the withering away of the state. Only when we reflect seriously on the fact that socialism has been practiced for almost 70 years can we readily discover the basic reason for undemocratic phenomena in socialist countries. [The reason] is that after the proletariat seized political power and controlled the nation's economic lifelines, not only did they implement an imperfect system of state ownership, they also attempted to restructure the system of village/town ownership in accordance with the model of asset accumulation and state ownership, concentrating the ownership and control of all society's assets in the hands of the state. A study of recognized causes really equates the system of state ownership with that of social (all the people) ownership, not recognizing it as a form of social ownership, but considering the state ownership system as a

transitional bridge for socialism evolving into communism. Therefore, this is recognized as socialism's highest ownership system. In fact, the more this is done, the easier it is to generate bureaucratism and then actual ownership and control of the assets of production by the people and the socialist democracy based on this exists only in form.

Actually, present reforms in the state ownership system are imperfect and inadequate. From our viewpoint, the group shareholding system is a practical form of social ownership in a socialist commodity economy. Therefore, using the group shareholding system to perfect and develop the state ownership system is not an accidental subjective guess, but a necessary trend of historical development. It is also the inevitable transition for early evolution of socialism into intermediate and higher levels, from a socialist commodity economy to a communist commodity economy. Actual practice shows that it must show an obviously strong vitality and advantage during development of the commodity economy. Such hidden vitality and advantage are rarely recognized, but they are having an irreplaceable effect on the political and economic reforms taking place in China today.

In the first place, we can see that microeconomic restructuring of the economic cells in the socialist public ownership system is beneficial to direct participation of workers in enterprise management. After state-owned enterprises have undergone stock conversion (representatives of the state separated from state organs who bear legal responsibility for national assets), enterprise representatives and worker representatives must form a board of trustees. Naturally, enterprise representatives and worker representatives must be selected in open elections by workers to represent their interests under their surveillance. The plant manager is hired by the board of trustees and is responsible to the board. Of course implementing a plant manager responsibility system under these conditions will not turn the master-servant relationship upside down. However, avoiding the monopoly of power by the plant manager may be difficult when a plant manager responsibility system is implemented in China, where the workers do not share in ownership of capital assets and do not participate directly in enterprise management. Only by conversion of state enterprises into stock ownership is it possible to realize the social ownership system that results from the direct union of workers and the materials of production, as advocated by Marx and Engels. Only by doing so, is it possible to further perfect the socialist production relationships in three areas involving the relationship between the worker and the means of production, the role of the worker in production, and his role in distribution to finally make the workers the master of the enterprise, and the cadres the public servants of the people.

Second is implementing the separation of politics from the enterprise, to create the premise for reforms in the political system. To change the product-planned economy model to a planned commodity model requires

the original state-owned enterprises to undergo intense reforms so that [management and ownership] are suited to each other. As mentioned before, if the right of management and the right of ownership are separated and only the right of management is considered, that cannot change the inner structure of the state-owned enterprise. If it is changed into a system of collective or individual ownership, then the nature of the state-owned enterprise is basically changed, and that, of course, is not possible. Because the nature of the public ownership system must be maintained and it must adapt to the commodity economy (its assets must take form of value transfer by being converted continuously into commodities, which means it must also become a commodity), it must also adapt conveniently to macroeconomic control by the state. The best form, of course, is the shareholding system commonly held by the state, the individual enterprise, and its workers, with the state shareholder assuming the leading role. Therefore, an enterprise should be separated from the state so it can become a commodity producer and manager with a relatively independent legal status. The primary approach only allows state-owned enterprises to become shareholding operations, after which the enterprise group, in accordance with the division of labor by specialty, becomes an enterprise shareholding group (a large shareholding company). By using this approach the state can only send representatives who are granted the power to effectively separate an enterprise from a government agency, to implement the separation of politics from an enterprise. As the result, the government and the enterprise can each perform their duty and basically change the abnormal situation where the state is the upper structure and the economic body at the same time, with no separation of politics from enterprise management. The government is released from minute practical details of enterprise management, and the result is reform in the state's political system and simplifying its structure on a broad scale to provide the premise to basically eradicate bureaucratism and overcome an atmosphere of impropriety, to improve government efficiency.

Third, implementing macroeconomic control and planned management of the people's economy in accordance with economic principles is beneficial to the government. After the group shareholding system is implemented, the state can transfer the completely planned administrative techniques used to manage the economy into other areas such as tax collection, price evaluation, granting of credit, interest determination, and other economic procedures which, through the market mechanism, can implement planned macroeconomic control of the people's economy. However, generally speaking, it is only through microeconomic restructuring of the economic cells of socialism with the shareholding system that the state can use economic leverage to carry out macroeconomic control and management through the market mechanism. Toward this end, we must reform various management systems dealing with planning, currency valuation, tax collection, and so forth. To make good reforms in this area and to make them successful we must use the group shareholding system as the

premise and basis to replace the state ownership system. As reforms go deeper, penetrating many layers, various markets of a regional or national nature are being formed. In the not too distant future, the rise and fall, and successes of individual or group enterprises and the monetary income of their cadres and workers will be determined completely by competition in the nation's unified marketplace. Actual practice shows that only by using market competition as the leverage is it possible for the initiative and creativity of each cadre and worker and enterprise to be brought into full play. The result of competition must effectively stimulate innovations in the enterprise's technical facilities, improvements in product quality, lowered production costs, strengthened horizontal ties, and openings in foreign and domestic markets that would ultimately lead to increased growth in national income, increases in cadre and worker income, and improvements in standard of living. While it is possible for bankruptcy and unemployment to occur, such social outcomes associated with capitalism are not likely to occur after a healthy insurance system has been established. We can see from this that market competition can not only usher in a lively vitality and great benefits for society, but also the commodities produced can generate currency which can be used as heavy artillery to destroy the natural economic bases remaining in the villages and to break down their stubborn fortresses of closed conservatism. By doing so, it will hasten them toward commodities development, industrialization, and modernization. This will, in turn, stimulate rapid development in China's commodity economy and social productivity. Only in this manner can a firm and solid material foundation be laid for establishing a superior socialist democracy.

Fourth, this is beneficial to cleaning out the residue poisons of feudalism, and to stimulating scientific and cultural development and renewal in value concepts. Because a commodity economy is a highly cultured economy, its development and productivity provide material conditions for scientific and cultural development. It also projects even greater and more urgent expectations for such development. On the basis of external conditions noted in a group shareholding system, whether it is in the distribution of resources, capital, or personal talent, after a national unified market has been formed, no help has generally been required from administrative authorities, but its implementation is carried out chiefly in the market for capital, material resources, and technological talent. To maintain order in the national unified market and to implement planned management of the whole people's economy macroeconomically, we cannot depend on the will of senior officials as a matter of course, but look for help from legal authority and a healthy legal system. Objectively, this provides a fair and equally competitive environment, as well as an equal opportunity for all enterprises and all members of society to fully develop enterprise potential and individual ability. Observation within the group shareholding system shows it to be a strong and forceful bond tying together the interests of the state (society), the collective, and the individual. Moreover, distribution of benefits received by the cadres and workers is determined chiefly by the enterprise's efficiency; that is, based on the individual's contribution to

society (the state) and the collective (group). Within a group shareholding enterprise, the freedom of each individual to develop has become a condition for the free development of all individuals. In this social environment based on the "union" of free persons, a new personal philosophy and value concept based on "all for one and one for all" will lead to renewal of cultural concepts for the whole society. This new value concept and other corresponding concepts of equality, freedom, democracy, competition, legality, and so on, will be used to shake up and replace various decadent feudal ideas. At the same time, a modern lifestyle characterized by a quick pace, high efficiency, openness, culture, and good health will replace the old life noted by its slow pace, low efficiency, closed-mindedness, stupidity, and unhealthiness. While the modern lifestyle and socialist democracy are two different things, they combine to reflect the economic and cultural development of the state, and the income level, cultural attainment, thinking, and mentality of its citizens. To try extending socialist democracy to all people is obviously not possible without ideological and cultural reform and establishment of a modern lifestyle.

At any rate, to cure the resistant disease of bureaucraticism, we must start with the inner structure of the state ownership system. Only by transforming the state ownership system into a shareholding operation is it possible to effectively develop a socialist commodity economy; to promote social productivity, science, and culture, and renewal in ideological concepts; to lay a firm material, ideological, and cultural base for socialist democracy. However, democracy is not a fixed and unchangeable passive factor in an economic base. On the contrary, the development and perfection of the democratic political system that serves as the upper structure must actively counteract the economic base. Reforms in the economic system stimulate productivity, and the relationship between development of productivity and production continues to be perfected, while requiring the upper structure, with which it does not adapt too well, to reform in time. As the result, reforms in the political system are not just the inevitable result of thorough reforms in the economic system, they also reflect the extent of reforms in the economic system and an urgent need for a socialist commodity economy to develop.

#### Footnote

1. *Collected Works of Lenin*, Volume 23, p. 70.

#### Future of Democracy Discussed

90CM0066A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 212, 16 Mar 90 pp 54-55

[Article by Li Zao (2621 2483): "The Fate of Democracy on the Chinese Mainland"]

#### [Text] How To Smash the Traditional Cycle

From a long-term point of view, the future of democracy in China, apart from its affect on some uncontrollable historical factors, is very important, and will be decided by the political wisdom of democratic forces.

History proves that the fall of a royal crown is not equivalent to the coronation of democracy. The collapse of an autocratic dynasty also does not mean the imminent arrival of political pluralism. Speaking of "Chinese characteristics" is a fundamental characteristic of modern China. In short, this characteristic is that banners and slogans are new, but the goods are the same as before. It is easy to explain this endless cycle of modern Chinese history. China's rulers of the past hundred years have always muttered incantations, and the labels "Chinese characteristics" and "national circumstances" have always been on their lips. This is really a "supernatural talisman" to protect them. At the same time, citizens have increasingly understood this, and it has become common knowledge in intellectual circles.

The basic question is, how can this cycle be broken?

This requires superb political operational skills as well as fundamental conceptual changes.

Many people have coincidentally noted that the alarm of the current Chinese authorities is similar to that after the reform movement of 1898. Yet do people anticipate the recurrence of debates similar to those of Mr. Sun Yat-sen, Kang Youwei, and Liang Qichao, but in a new form?

What's done is done; we need not discuss the rights and wrongs of earlier generations. However, the significance of historical events for the future does deserve to be examined introspectively. People cannot help but wonder why the Chinese mainland has not yet gotten back on track after experiencing misfortune. There have been many revolutions on the Chinese mainland since the 1911 revolution, to be sure. In addition, each concluded with one side enjoying overwhelming superiority. One side consumed the other. Generally speaking, the mainstream political tradition in modern China is that of revolution: armed extermination and elimination of the opposition. The premise for one's political existence is annihilation of the opponent. The Chinese expression "mutually exclusive" is a classic reflection of this political philosophy. It is very different from the form of political existence that is pluralistic, where power occupies two positions, forces are balanced, and there is negotiation and compromise.

Democratic politics developed on the basis of the latter. It absolutely cannot grow in the soil of the former tradition. Modern democratic politics should maintain a certain tension between two or more extremes. One side does not swallow the other, but rather one side is the condition for the existence of the other. It is established through criticizing the other side.

#### China Heads Toward a Pluralistic Situation

It should be noted that the historical tide is trying hard to drive China towards pluralistic coexistence. The appearance of some of the initial attitudes indicates this.

Remember that when Mao Zedong was at the height of his power he complacently ordered, "We must use all our

power to pursue and destroy the remnants of the rebels," where ever they may be. Yet it is fortunate that his "power" was insufficient and that the "remnants of the rebels" were not so "tattered," and history took pity on the Chinese people. Otherwise, the "remnants of the rebels" would have been pursued and annihilated, and Taiwan would have been "liberated" by force long ago. Allow your imagination free rein, and imagine the "scene of prosperity" for present-day China [had this occurred]! Is Hong Kong still "fragrant?" Is Taiwan still "rich?" Do they tolerate the existence of the obstructive "Revolutionary Committee of the Chinese Kuomintang" and other democratic factions? Do they try to draw "Hong Kong and Taiwan compatriots" to their side and give them preferential treatment? Do they engage in a "united front?" Or is it too much trouble? Since all the people are under our jurisdiction and have become our subjects, the mainland, Hong Kong, and Taiwan have become a united empire. Working under the law that "those who are with us will prosper, and those who are against us will perish," there will no longer be any misgivings. How much breathing room will the Chinese masses, especially intellectuals, still have?

Although currently there is a great disparity of power of the tripartite forces of the mainland, Hong Kong, and Taiwan, the mainland masses, especially intellectuals, have gained some breathing space because of the existence and balance of Hong Kong and Taiwan. (Note that the disparity of morality among the three is the inverse of the disparity of power between them. Thus, with only the warning "I'll mind my business, you mind yours," mainland authorities, with their millions of soldiers, warned and threatened tiny, peaceful Hong Kong not to become a "counterrevolutionary base" for the "overthrow" of the mainland. This needs to be emphasized!)

To sum up, from a competitive angle, modern pluralistic society and democratic politics are politics without an ultimate victor.

In analyzing the "democracy movement of 1989" along these lines, we should frankly admit that, because of the 4 June massacre, the enmity between the authorities and the people is already too deep, they are at daggers drawn, and the situation has become polarized. Perhaps the historical opportunity for gradual improvement has been crushed by the tanks. This is because the prerequisite foundation for cooperation is approaching collapse. Think back on the situation after the Empress Dowager Cixi killed Tan Sitong and others. The ethnic hatred between the Hans and the Manchus and the intense, deep-seated hatred between the people and the authorities was already so deep that it could not be dispelled. Even though decrees to implement political reforms similar to those of 1898 were repeatedly promulgated in 1909, it was too late! This is because any possibility of compromise had already been destroyed, and the historical opportunity for improvement had been drowned in the blood of 1898. Revolution has already swept China like a prairie fire. Thus, hoodlums like Yuan Shikai dominate modern Chinese history more than people like

Kang Youwei, Liang Qichao and Sun Yat-sen. China has been caught in wave after wave of upheaval.

Perhaps this is the nation's predestined fate.

#### Creating the Future Under Historical Conditions

Even if this is the case, there is still no historical necessity. Devoting all our energy to searching for a democratic path and struggling to survive in the face of death is still the only choice and hope of reviving the country if we do not wish to make China fall into circumstances that are beyond redemption.

We can create a future only under established historical conditions. We cannot build a "utopia" out of thin air. A cause to rejoice is that even under today's extremely difficult conditions, there is no reason to state categorically that the conditions for moving toward constitutional democracy do not exist. In fact, not only do the conditions exist, but we can state more categorically that these conditions may become the result of constitutional government with luck and ingenuity.

The key is in promoting political wisdom, analyzing the established situation, tailoring action to circumstance, and facilitating change.

One of the first conditions is interactive relations between the different systems and regions of China. As we said above, the existence of such regions as Hong Kong and Taiwan is a mirror, a reference, and a balancing lever. Comparison of the modes of existence of the politics, economies, and cultures of Hong Kong and Taiwan with the mainland's social situation that is producing violence becomes a kind of driving force of political trends. At the same time it also can quietly suppress the excessively absurd and cruel acts of the mainland authorities. This hidden function will become stronger as interchange between the three sides becomes more frequent. In a certain sense, speaking of the party in power on the mainland, Hong Kong and Taiwan have definitely played a role similar to that of the "party not in office." Naturally, this role is extremely limited and cannot be considered equal to a true multiparty system. Yet, objectively, the interaction and the balancing role exist. To distinguish it, this balancing role may be termed "balancing politics of a territorially-divided system."

In addition, in some parts of the mainland there are imbalances in regional development. There are the relatively independent regions such as Hainan, Guangdong (including the Shenzhen, Zhuhai, and Shantou Special Economic Zones and the coastal development regions of Guangzhou and Zhanjiang), Fujian, the coastal development cities, and even Tibet and Xinjiang where there are considerable differences in economic, political, cultural, and religious interests. This imbalance is still intensifying and may be irreversible. Its independent position becomes stronger as central power weakens. It should be noted that the appearance of these relatively independent regions and special interest groups is gradually

eroding the highly uniform and highly managed vertical system of centralized government. Weakening the unified state may leave some cracks for the transition to a federal system of constitutional democracy.

The key here is that the special interest regions and groups must compete peacefully under the common rules of the game and must replace "armed, rigid, and overwhelming superiority" with "pressure, negotiation, compromise, and balance." Of course, we should be aware that the basic conditions must be prepared if nonviolence is to succeed. That is, create and accumulate power and achieve a balance of forces. Only in this way can the military careerists' belief that "political power comes from the barrel of a gun" be effectively stopped. If a balance of power appears, where no side (including special interest regions and groups) can swallow up its opponents, a brand-new political prospect may quietly emerge.

Thus, the next question is, how are the above-mentioned "rules of the game," that is, the legal procedures of authority that are jointly observed, to be created? After they are created, how is their authority to be established? In short, how is the transition to a society of rule by law to be reached? This may be the most fundamental challenge to our political wisdom.

In a certain sense, democratic politics is ordered politics. That is, order, regulations, and laws are higher than anything else. They are above the party in power and above the politics of the rulers. But in totalitarian politics, as a form of government by rule, non-ordered politics and power are higher than anything else.

The problem is, is there any fixed path for the change from non-ordered politics to ordered politics?

The answer is no. If there were a fixed path, that is, if there were rules to be observed, then it would already be ordered politics.

#### Relating to Changes in Standards

This involves changes in standards. To borrow the concept of the paradigm of T. Kuhn, the scientific philosopher, we can see that the above change is very similar to the transition from the pre-scientific age to the scientific age, that is, the change from the age before standards to the age of standards. This is an integral change of pattern and there are no fixed rules that can be followed. However, some necessary (but incomplete) conditions can be collated.

First, it is necessary that the original set [of conditions] be discredited and that the abnormal situation already have reached a critical point. Present-day China has clearly exhibited this condition. Second is the birth of different special interest regions and groups. We will not repeat the previous discussion of the appearance and role of unbalanced and relatively independent regions. As far as social strata are concerned, the issue of special interest groups refers in particular to the middle class,

which is the stable element and the primary operating group in politics and society. Although present-day China's middle class is not yet strong and independent, there is no doubt that it is in the embryonic stage. What must be guarded against, especially now, is scorn for private businessmen on the part of aristocratic literati and officialdom. Think back on the upstarts during Western Europe's age of enlightenment. At that time aristocrats scoffed at them for being crude and uncultured, but it was they who were the leading actors of history. In addition, they also are vanguard of the educated and trained middle class. I look on the private businessmen of today's China in the same way.

Third is the appearance of political representatives for the above-mentioned special interest groups, especially the appearance of political representatives of the middle class as an independent balancing force. Thus, the transition to a new pattern of political balance is possible.

It is well-known that for the past 72 years, beginning with the Soviet Union's October Revolution, in communist countries, however brutal and cruel the authorities, however poor, weak and backward the country, the bodies of the starved are strewn everywhere and the people are boiling with resentment, but the party in power still maintains its composure and sits firmly on the throne of power. If the above situation occurred in other countries, who knows how many times the government would have changed! One important reason is that what the communist party faces is generally a scattered, disorganized political force with no social base. Hence, there is also no latent political replacement force. And there are no organized political force restrictions, so the corruption and brutality of the party in power cannot be corrected. The basic secret of the communist party's long rule is that one of its modes of existence is to completely ban any organized opposition. Conversely, once an organized opposition appears, the situation will immediately take on an entirely new look. The development of Poland is the most forceful testimony.

#### Creating a New Political Model

Fourth, it is necessary to create a new model of political existence in the mode of political operation and the mass media. The traditional political idea of "you die, I survive" should be changed to "you and I get along, coexist, compromise, and restrain each other." The Maoist philosophy of "if the East wind doesn't overcome the West wind, then the West wind will overcome the East wind" should change into a political philosophy of "pluralistic coexistence and peaceful competition." This political philosophy gives the opponent some room. Even after the opposition loses politically, it still has some room for activity and maneuvering (such as in the economic sphere). It should definitely leave the opponent a way out. This is the only way a possibility for political compromise can appear.

Fifth, the most important thing is that all new standards must solidified in constitutional form and passed on for

posterity. If a society of rule by law is to be achieved in future China, a sustained large constitutional movement is absolutely unavoidable. This "large constitutional movement" contains two basic elements: a constitutional movement and a law protection movement. Relatively speaking, drafting a constitution that conforms to international practice and the spirit of the modern age is not very difficult. The difficulty is in how to give it authority, deterrence, and respect. The problem of modern China isn't that it doesn't have laws, but that the rulers have never respected the position of the law. "Law" is only a tool and toy in the hands of the rulers. In view of this, a "law protection movement" is absolutely necessary. "Law protection" will appear when society's special interest groups weigh their own interests and discover that ruling society by law is more beneficial to them fundamentally. When the time comes, just like Cai E [5591 6948] and Sun Yat-sen in an earlier time, once people discover that the constitution is scorned and even

trampled, they will immediately raise their arms and cry out; there will be a nationwide discussion, and a law protection movement will start. In this way, through long-term repetition, the authority of the constitution will take root in the hearts of the people, and the constitution's supreme position will be established and gradually accumulate in the deepest levels of the social mind. Following this road, China will evolve into a modern democratic society which rules by law and respects freedom and human rights.

History has already given us many opportunities and now is at a crossroads. The road ahead is complicated and confusing, with "dark and stormy weather, and cocks crowing endlessly." It is no exaggeration to say that we have reached a critical juncture that will test our nation's wisdom and tenacity. Does this ancient civilization still have the right to exist? History wants the achievements of our actions to reply.

## NATIONAL AFFAIRS, POLICY

## Dong Fureng Comments on Current Economy

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[ECONOMIC REPORTER] in Chinese No 11,  
19 Mar 90 pp 14-15

[Article by Yao Kan-nan (1202 6373 0589) and Li Ssu-po (2621 2448 3134)]

[Text] On the evening before the Third Plenary Session of the Seventh NPC was convened, although extremely busy, economist Mr. Dong Fureng [Tung Fu-jeng (5516 6534 4356)] agreed to be interviewed. The interview centered on the issue of hot spots in China's present economy.

[Interviewer] At present, what new problems have arisen for China's economy under rectification and improvement?

[Dong Fureng] In the fourth quarter of 1988 when rectification and improvement began, the policy was correct. Many measures were generally appropriate, and we have already seen some results. Yet, the goals of this and rectification and improvement still differ greatly, giving rise to some new problems. Some of the problems are new while others were originally there but have become more critical.

The main issues are: 1) Since the second half of 1989, the pace of industrial [production] has rapidly dropped, and certain months saw a negative increase. 2) Market sales have not been vigorous, products are overstocked, and reserves of finished products have greatly increased. 3) A great number of enterprises have insufficient startup. Many enterprises have ceased or half-way ceased production. In addition, many collective enterprises and individual households have gone out of business. Therefore, the employment issue is more severe than it previously was. 4) Economic returns have worsened. In 1989 forecast industrial fixed product costs rose 22.4 percent over 1988, enterprise deficit figures increased 1.2 times, and in January 1990 they rose another 55.3 percent. As for enterprise losses, in 1989 they were 19 percent. They rose to 23 percent in January 1990. Turnover of industrial operating funds has slowed down. In 1989 fixed operating fund turnover was down approximately 10 days. New operating funds are at 56 percent; that is to say, more than one half have become finished product reserves. 5) Fiscal difficulties have intensified. The fiscal deficit broke 1989 predictions by 7.4 billion yuan (RMB, as following). 6) The actual income of some residents fell.

[Interviewer] Could you please analyze what contradictions will be hard to handle during rectification and improvement?

[Dong Fureng] There are many hard-to-handle contradictions. One is that of controlling demand and increase effective supply. The inflation seen in 1988 was mainly a

result dragged along by demand. Total demand far exceeded total supply. Thus we must control demand. And it is very hard to figure out how to not only not drop but rather increase supply while controlling demand. In 1989, generally speaking, the actual results were not bad; demand was controlled, effective supply continuously increases, but the pace is slow. In January and February 1990 effective supply was decreasing. If effective supply continues to decrease, then this may increase the contradiction between supply and demand.

A second is the contradiction between lowering the pace of economic development and increasing fiscal income. The pace of economic growth is too fast, requiring a gradual lowering. However, fiscal income must increase, otherwise it will be impossible to resolve many economic and social problems.

A third contradiction is among lowering the pace of economic development, reorganizing the industrial mix, and improving economic returns. For the economy to turn for the better, we must fundamentally rely on improving economic returns. In 1989 it was noted that we must improve economic returns but on the contrary actual returns worsened. Here we run into an extremely difficult issue, namely, that lowering the pace of economic development and reorganizing the industrial mix will definitely make some enterprises have insufficient start-up or even cease or semi-cease production. Under such circumstances, economic returns will inevitably be affected.

Fourth, the contradiction among lowering the pace of economic development, reorganizing the industrial mix, and increasing employment. This contradiction was very pronounced in 1989. In 1990 the unemployment rate may rise.

Fifth is the contradiction between lowering the amount of price increases and maintaining an appropriate amount of market demand. Due to retrenchment and demand held down, there was control. During all of 1989 residents' savings increased more than 130 billion yuan. In addition, residents had a lot of cash on hand. At present they have around more than 700 billion yuan of surplus purchasing power. It is a threat to the market although this surplus purchasing power will not all turn into timely market demand.

Sixth, it is difficult to control price inflation and maintain social order while reducing the fiscal deficit. In 1989 national fiscal price subsidies and enterprise loss subsidies together reached about 100 billion yuan, or more than one-third of the entire year's forecast income. If the state does not subsidize, the fiscal deficit could shrink but this will be disadvantageous to social stability: prices will be uncontrollable, enterprises will even close, and worker incomes will drop.

Seventh, is the contradiction between the shortage and surplus of funds. At present many enterprises are still short of funds. But, on the other hand, there are large fund reserves and turnover is sluggish. Increasing bank

loans while enterprises reserves rise will make it impossible to start production by injecting funds.

The eighth contradiction is between controlling total demand and reorganizing the industrial mix. To reorganize the industrial mix, one, rely on reorganizing the mix of capital reserves, but this is hard to do because of the obstacle of interest, and two, rely on new investment and reorganizing the capital increase mix including the investment mix and the credit mix. The latter point requires time to do. It won't do if there is too little time. Moreover, because of shrinking total demand, newly invested capital is very limited, so reorganizing the industrial mix won't be easy. If there is no fundamental reorganization of the industrial mix this will balance the total demand and total supply volume. It is still impossible to balance the latter because the mix is inappropriate.

In sum, rectification and improvement is a very complex and difficult matter. To allow it to continue and attain the expected aim requires balance among many contradictions and finding a way to resolve them.

[Interviewer] What brought about the aforementioned contradictions?

[Dong Fureng] They were mainly brought about by: one, many problems will inevitably appear during rectification and improvement. They are hard to avoid. For example, a drop in industrial development rates and sluggish market sales will inevitably occur. Two, in the course of rectification and improvement, it is rather easy to resolve shallow level problems and the effects are rather clear. We still have not made much headway in resolving deeper level problems.

[Interviewer] What are the deeper level problems?

[Dong Fureng] One is the imbalance of the industrial mix. This includes the imbalance in the product mix. After an entire year of striving in 1989, the main proportional relationships in the state economy have improved, although there has not been any change and little progress in the proportional imbalance of the industrial mix. Thus the aforementioned several contradictions were created and many problems became difficult to solve. Second, is the fall in enterprise economic returns. This is an old defect in economic work. In 1989 it not only did not improve, but on the contrary, it worsened. Falling economic returns sharpen the contradiction between a lower economic development rate and increased fiscal income. Third, are the flaws of the economic system that make many contradictions difficult to solve. In comparison with the shallow layer of problems (demand inflation, price rises, an overheated economy), these problems are much harder to solve. And if the deeper layer of problems are not solved, it is impossible to fundamentally solve the shallow ones. At the right time there may even be relapses.

[Interviewer] What do you consider to be the deficiencies of the actual process of rectification and improvement?

[Dong Fureng] The policy of rectification and improvement is correct. Many measures generally are appropriate, but it is still worth considering the flexibility of the adjustment and control measures, when to apply them, and the dynamics of retrenchment. Of course, it is still worth studying whether some measures are appropriate. Economic theorists differ on this point. It can be explored. In December 1988 I published an article in JINGJI DAOBAO [ECONOMIC REPORTER] entitled, "Will There Be Stagnation or Expansion in China's Economy?" In the article I said, "We should formulate a long-term, firm, unswerving policy to rectify currency inflation. The strength of retrenchment policies cannot be too large so as not to take the creation of effective demand reductions and economic stagnation as a yardstick." I still hold this viewpoint. Rectification and improvement still must continue. It is a long-term task. We cannot hope to attain all goals within a short time.

[Interviewer] Recently there has been an ever-increasing call to master the dynamics of retrenchment. What is your opinion on the matter?

[Dong Fureng] Deflationary measures must be flexible. Economic life is fast changing. Each measure will have aftereffects following its adoption, some positive, some negative. Based on economic changes, we should flexibly adopt measures for change and adjustment. We must master well the dynamics of deflation. Being overly tough or overly weak are both wrong. Considering the situation in 1989, because the measures were multibarreled and uniform, results were good for a time and then they brought along a series of unforeseen new circumstances. Particularly after the second quarter, the industrial rate of increase fell very quickly. Enterprises largely stopped work and stopped production. The market was in a slump. That is to say, multibarreled uniform measures such as guaranteeing deposits, raising interest rates, and controlling investment, collective purchasing power, individual consumption funds, prices, etc. came on with force and in strength. But after there has been a change in conditions, they do not accommodate it at the right time. Although certain measures change the timing is not up to par. For example, on the issue of introducing capital, in the first quarter of 1989, enterprises had already felt a lack of funds and triangular debt among enterprises began to form. The issue would have been easier to resolve if capital was injected in the second quarter or a bit later. But it was unable to serve the role of starting production by not injecting capital until triangular debt among enterprises had already taken shape, the market slump was more serious, and many finished products were in reserve. Of course, it is not easy to manipulate adjustment and control and deflationary measures.

[Interviewer] What do you consider to be the major contradiction in China's present economy?

[Dong Fureng] Considering the present vantage, I agree with the State Statistics Bureau's recent analysis (see RENMIN RIBAO 10 March 1990). I saw things this way a bit earlier, that the major contradiction no longer lies in the lack of funds in enterprises but rather in sluggish market sales. At present, there is a pressing need to spur on market sales, accelerate capital turnover, and halt production slippage. Otherwise, demand will fall and the contradiction between supply and demand will be more pointed.

[Interviewer] What is the cause of the sluggish market?

[Dong Fureng] The main reasons are, first, there is sluggish demand for production materials. This is the result of reducing capital construction. Second, there is sluggish demand for consumer goods. Residents' incomes generally have moved to savings. There is weak desire to purchase. A main cause of this is residents' price and income expectations are both changing. Price expectations are for the inflationary trend to lesson while incomes are not expected to rise. Even if they rise, it won't be by much, and for some people it will even drop. Another reason is that there is still the issue of goods unsuited to markets. Therefore, at present the only effective thing to do is that we should appropriately increase ultimate market demand and not middle demand. We should only increase commercial lending under this premise.

[Interviewer] I've heard that the government recently is prepared to adopt a series of measures to increase demand. Do you think this is feasible?

[Dong Fureng] It is now necessary to adopt some measures such as minor adjustments to interest rates, increasing technical renovation loans, increasing certain basic infrastructure construction (e.g., roads, bridges, etc.), lowering certain consumer goods prices, appropriately changing social collective purchasing power, etc. All of these can increase ultimate demand. Furthermore, it also is necessary to increase circulating real capital lending. Of course it has to be done well.

At present, we also must spend effort to readjust the industrial and product mixes. Toward this end, one, we must readjust the investment mix, and accelerate infrastructure construction such as energy resources and raw materials. Two, we must reorganize, alter the production, and consolidate existing enterprises. Three, we must speed up technological progress.

As for improving economic results, we also must speed up technological progress, and weed out and reorganize some enterprises.

In addition, as far as possible, we must promote reform. Under present economic conditions, great reform activities cannot really occur but we should unite reform with rectification and improvement as far as possible.

[Interviewer] Would you please make a prediction for 1990's year-long economic situation?

[Dong Fureng] I predict that the situation in 1990 will be more critical than in 1989. The difficulties are greater. The pace of industrial development is slower than in 1989. Enterprise losses are higher. Unemployment is higher. Fiscal hardships are many. There may be market fluctuations. Prices will continue to rise. Residents' actual incomes may drop further.

The entire year's economic situation still cannot be seen very clearly. We must look at whether we can reverse economic slippage in the first half of the year. At the same time, we also must look at the agricultural situation. If we can make an economic turn around in the first half of the year, there may be improvement in the second half. Considered from the present viewpoint, even if there is growth in the first half, it will be limited, making it more difficult to reach entire year industrial production plan increases in the second half. Of course, looking farther ahead, we need not be pessimistic. There will always be difficulties with rectification and improvement, but if done well economically, along with various reform projects, then China's economy will adhere to a stable, coordinated development path.

[Interviewer] Some say that deflationary policies have begun to get flexible entirely, considering signs such as increased liquid capital, lower interest rates, more flexible capital construction, etc. Do you feel this is true?

[Dong Fureng] I feel that they have not become entirely flexible. They are only dynamic adjustments. If the deflationary policy is really stopped, then, the economy will immediately overheat and currency inflation will rapidly intensify. This is extremely dangerous. Therefore we must be extremely cautious in adopting measures. We cannot be too rash or too strong. Interest rates can only be finely tuned. Likewise there cannot be over-investment. In particular we must not give every department and party a signal or misconception that the dual deflationary policies have been halted. It is dangerous to have such a misconception.

#### Price Adjustment, Deregulation During Rectification

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[Article by Wang Jiazen (3769 1367 3791) and Zhang Lixia (1728 4539 7209): "Some Thoughts on Intensifying Planned Price Management"]

[Text] A. The Need To Intensify Planned Price Management While Improving the Economic Environment and Rectifying the Economic Order

Looking back at the practice of price control during the period of improving the economic environment and rectifying the economic order, we have reached an important conclusion: planned price management must

be intensified during the period of improving the economic environment and rectifying the economic order. This can be verified in the following three ways.

1. The problems on the price front today are related to the excessive weakening of planned management of prices. Those problems are epitomized by the "four losses." First, loss of control on the general price level. Price stabilization measures have proliferated since 1985, exacting a higher and higher cost, but the general price level has continued to climb steadily. The nation's retail price index rose 18.5 percent in 1988 compared to 1987. Second, price management has lost its effectiveness. Many prices should be controlled but are not. Many should be curbed but are not. Irresponsible price hikes and covert price increases have become commonplace. Third, price guidance has lost its efficacy. The guiding effect of floating prices has been offset by price increases. The effort to control price differences has been thwarted by price increases as merchandise is resold many times. Price ceilings have also been bypassed by a variety of additional extra-price factors. Fourth, the price structure has lost its balance. The price system, riddled with problems to begin with, has been complicated by many new distortions in recent years. Commodities removed from price control are overpriced, while those still under control are underpriced. The same commodity may be grossly overpriced outside the plan and grossly underpriced within the plan. The old price ratios between many commodities have reappeared as the general price level shot up.

The root cause of these problems is the overall imbalance in the national economy and structural dislocation. However, they also have much to do with the excessive weakening of the planned management of prices. First, at a time when the scope of price control is widening continuously, we have failed to establish a corresponding system of indirect regulation and control, which means that the state has little ability to control the general price level. Second, one of the two tracks of the dual-track pricing system is getting longer and longer, while the other is getting shorter and shorter. Because the proportion of prices under state planned distribution is being pared down year and year and price differences continue to widen, the track of planning is getting shorter and shorter. Prompted by wide price differentials, production enterprises often delay handing over their output for planned allocation using all kinds of excuses while expanding the share of output that they can sell on their own. In the area of circulation, large price differentials have attracted droves of official and private profiteers. Because of their speculative activities, a large amount of commodities have been channelled into the market track from the planning track, gradually strengthening the former. Third, because of the one-sided emphasis on the superiority of market regulation, the restraining power of planned management has been eroded considerably. The central government is powerless to deal with the myopic behavior of local governments on prices and is helpless to do anything about the monopolistic price-hikes by the various sectors. Nor is it in a position to stop

enterprises from irresponsibly raising prices. Thus the commodities with genuine state-fixed prices are few and far between. In the countryside, in particular, the number of commodities where state-fixing is faithfully executed is even smaller. Thus it is easy to see that while solving the "four losses" on the peace front depends on the intensification of economic rectification, the intensification of planned price management is also essential.

2. The "four losses" on the price front have hastened the deterioration of the economic environment. This is why: 1) After the state-enterprise distribution relationship became one of contracting, the tendency of enterprises to raise prices spontaneously got stronger. Meanwhile, the restraining power of planned price management became weaker. In the end, the enterprise's impulse to raise prices was readily translated into action. Driven by myopia, the enterprise spends a substantial portion of incomes derived from price hikes on consumption, ultimately boosting overall social consumption. 2) As the general price level soared and the incomes gap kept widening, the government had no choice but to dole out large sums of money to subsidize the prices of basic daily consumer goods to ensure that the minimum livelihood of people below the middle income level would not be affected. At the same time, outlays on key projects and administrative and operating expenses have also risen to offset price increases. The inevitable outcome is that revenues have not been able to catch up with expenditures. 3) Under a system where interests are more individualized and decisionmaking more fragmented, the major players in investment necessarily decide where to put their money based on the level of profits projected by price signals. Dislocations in the price structure lead directly to dislocations in the industrial structure. The overly rapid development of the processing industry has much to do with the high prices and handsome profits of processed industrial products. The excessively rapid development of township and town enterprises also has something to do with the support of the price policy. The most typical example is the explosion of small cotton mills. An important reason why these small concerns have been able to take on large state-owned enterprises and compete with them for raw materials and markets is that the prices of their products are rarely subject to control. 4) Instead of enriching the national coffers significantly, large price differentials under the dual-track pricing system have been siphoned off in all forms and shapes in the stage of circulation. Wherever they may be spent, these funds are bound to disrupt macroeconomic planning by the state. Clearly, then, price problems cannot be resolved without rectifying the entire economy and improving the whole economic order. But overall rectification will not achieve the expected objectives without intensifying planned price management.

3. The practice of improving the economic environment and rectifying the economic order during the past year and more shows that there is absolutely no alternative to intensifying planned price management. Now that the

drive to improve the economic environment and rectify the economic order is more than one year old, it must be acknowledged that the rate of commodity price increases in the market has been dropping month after month. Right now the market is sluggish; prices are stable and even slipping. This shows that economic rectification is working. It is also the result of the intensification of planned price movement. Price stabilization measures by governments at all levels usually consist of the use of planning to intervene in the market to correct its aimlessness and spontaneity. To begin with, the government set a mandatory target: price increases must be significantly lower than last year's. This target was then transmitted to all provincial, municipal, and district governments. The provincial governments, in turn, distributed it level after level. In many localities, price control targets were distributed in two directions, vertically to prefectures and municipalities, and horizontally to pertinent provincial sectors. In addition, provincial governors have signed a responsibility contract with the leaders of the prefectures, municipalities, and sectors. This move is even more coercive than ordinary command planning and has indeed worked quite well. Governments at all levels take price control more seriously now than ever before and have done a lot of work, paying not a small price. Second, the state has closed many loopholes which had enabled the localities to raise prices and has clamped down on many price increases. Third, a firm effort was made to stabilize the prices of daily necessities. Everywhere a number of products were identified for price stabilization assuming an assured supply. In the process the national treasury found itself spending significantly more on subsidies. Fourth, planned guidance and intervention were applied to the prices of key commodities from which price control had been lifted. This was accomplished by requiring that price increases be reported, controlling price differentials, and setting limited prices, to name a few. Fifth, the trading of key agricultural capital goods was monopolized, as was the wholesale of a number of key industrial consumer goods. These and other administrative measures have unclogged circulation channels and stabilized prices. Of course, it cannot be denied that price control has not achieved everything it set out to achieve. The prices of coal, cotton and cotton textile products, and highway transportation charges still have risen spontaneously by a wide margin and have not yet been effectively contained. Indiscriminate price hikes have reduced the effectiveness of planned price management to a certain extent.

#### **B. The Content of Planned Price Management in the Period of Improving the Economic Environment and Rectifying the Economic Order**

In our opinion, planned price management during the period of economic rectification should essentially cover four areas:

1. Planned control of the general price level. Price stability is an expression of economic stability as well as an important prerequisite for stabilizing the economy.

Given the imbalances in the national economy, imposing planned control over the general price level has become even more critical. First, reducing the aggregate volume helps check inflation, but the excessive currency already in circulation must be withdrawn gradually through the planned control of the general price level, that is, by prolonging the amount of time that elapses before the money in circulation begins to affect the economy in order to ease the concentrated repercussions. No other measure performs this role. Second, the control of the general price level would gradually rid society of its psychology of inflationary expectations. As long as prices are not brought under effective control, people cannot but think about inflation and the market cannot be truly stabilized. This is because the public owns hundreds of billions of yuan in savings deposits and wields the power to withdraw such deposits. If they get a little nervous, the market will not be able to cope. The present system of value-guaranteed savings is an important line of defense, but controlling the general price level will also be a critical line of defense. Moreover, the general price level reflects the operating state of the national economy as a whole. Controlling the general price level is the key link in the drive to improve the economic environment and rectify the economic order. Once that is accomplished, everything else will fall into place. China's economy has been commercialized to a substantial degree. It should be our pragmatic choice to determine the extent to which the overall economy should be scaled back based on the degree of economic stability as reflected by the general price level, and to adjust the industrial structure based on the supply-demand relationship as reflected by price signals.

The "Decision on Further Improving the Economic Environment and Rectifying the Economic Order" adopted by the Fifth Plenum of the 13th CPC Central Committee made "further lowering the inflation rate of retail prices to below 10 percent the prime objective of the drive to improve the economic environment and rectify the economic order." The price control plan for each year must be prepared on that basis.

2. The planned management of key commodity prices. There is no question that in China not all prices should be put under market regulation. There is also no question that even after price reform is accomplished, the prices of a handful of key commodities must remain under planned management. Ours is a planned commodity economy. The state must use prices as a tool to directly regulate the supply-demand relationships of key commodities, allocate resources rationally, and coordinate national economic development. But as for the proportions between regulation and deregulation, form of management, and the intensity of control, they should be determined according to the state of the economy during the particular stage of reform in question. In our opinion, the planned management of key commodities should be intensified during the period of improving the economic environment and rectifying the economic order. First, the scope of deregulated prices cannot be

further broadened. At present 76 percent of agricultural procurement prices have been deregulated, as have 50 percent of the retail prices of consumer goods and 40 percent of the prices of industrial capital goods. Add other factors, and the proportion of deregulated prices is actually much larger. Relative to the state's macroeconomic regulatory and control capability and its ability to exercise indirect control over prices, the scope of deregulation has become too large. Within this scope, prices that are truly unjustifiable can be adjusted as appropriate, but further deregulation is inadvisable. Second, we should increase the proportion of planned management by combining the two "tracks." We should arrange commodities under dual-track pricing in some kind of pecking order. Where the pros outweigh the cons, the dual-track pricing system should continue. Where the cons clearly outweigh the pros but where the conditions for combining the two "tracks" are lacking, the numerical share of the planning track should be enlarged as appropriate. Where the cons clearly outweigh the pros and where the conditions for combining the two "tracks" are in place, we should introduce unified allocation and unified pricing by combining the two "tracks" without delay. Third, management of the prices of public daily necessities must be tightened up in particular, not only because the masses are sensitive to increases in these prices, but, more important, because we must take into account their actual tolerance. The past few years have seen an endless explosion in consumption funds, but the increase in consumption funds has not been evenly distributed among all members of society. On the contrary, the explosion took place on the basis of an ever-widening earnings gap. The fairness of prices determines that the earnings gap between individuals equals the difference in their ability to cope with price increases. You can average people's income level, but you cannot do likewise with their coping ability. Accordingly, we must base our price control policy on those segments of society with low incomes and limited coping ability, which requires that the prices of daily necessities be stabilized. These prices must not only come under planned management, they must also be controlled rigidly during a certain stage. They cannot be tampered with even if rigid control increases government subsidies.

3. Adjust the planned restraint of prices. Given the present pattern of distribution, everyone is inherently motivated to increase revenues by raising prices. This motivation must be reined in by a strict planned restraint. On the national level, in the case of commodities whose prices need to be and can be raised during the planning period, comprehensive planning must precede adjustment. Every single instance of price adjustment must be considered in the national context. A strict price adjustment plan should be worked out to be enforced strictly. We cannot casually lengthen the list of prices to be adjusted just because some sector or unit makes a lot of noise or has a lot of clout. At the local level, the power to approve price increases must be centralized. In making policies on price increases, some localities are

motivated more by the desire to raise revenues than any anxiety to straighten out prices. Some prices easily depart from the general reform direction to become new price distortions. There is a tendency these days which deserves special attention. It has been more than a year since the state took back the authority to approve price increases. Many localities have dreams of "making a killing" after the power is delegated. Should that come to pass, the consequences would be unthinkable. In the period of improving the economic environment and rectifying the economic order, at least, the authority to approve price increases should not be delegated. At most we can loosen the screws a little without losing control.

4. The planned guidance of deregulated prices. It is an important principle of the establishment of a new price management system to insist that commodity prices already deregulated be put under guidance and management. We should promptly create a system that guides effectively, intervenes within limits, and supervises strongly. We envision such a system as a piece of systems engineering with at least five sub-systems: 1) Price intervention. Price floors should be set, price differentials should be limited, price increases must be reported, and profits must be limited to prevent excessive price increases. 2) Economic regulation. We should set up a price regulation fund, production protection fund, and commodity reserve fund, etc., to regulate price movements caused by unforeseen circumstances. 3) Improve market organization. Establish a futures market. Introduce contract procurement. Coordinate the production-selling relationship. Adjust and regulate the amounts of exports and imports in a timely way to improve market stability. 4) Information guidance. Improve the information network. Improve the markets. Process accurately. Transmit information expeditiously. Use market information to guide the rational circulation of commodities. 5) Legal restraint. Formulate a competition law and anti-profiteering law. Improve market rules. Take advantage of the drive to improve the economic environment and rectify the economic order to explore boldly to chart a new course.

#### C. The Intensification of Planned Price Management and Reform Are Moving in the Same Direction

A number of points of understanding regarding planned price management need to be clarified.

First, there is the notion that intensifying planned price management deviates from price reform. Actually they are consistent with each other in their essential regulatory nature. To be sure, the purpose of price reform is to dismantle the highly centralized planned price management, replacing it with a system where the prices of "a minority of key commodities and labor costs are managed by the state while the majority of commodity prices are regulated by the market." However, the ultimate goal is not the same as the passing objectives we pursue along the way. Even after the goal of price reform is realized, the principle of planned price management cannot be discarded. In developing a planned commodity

economy, we must, on the one hand, make full use of the law of value as a regulator, correcting the delayed effect, haphazardness, and destructiveness of the law's spontaneity with planning. On the other hand, the planning nature of the economy demands that we plan important economic activities in advance to ensure their implementation. In many cases, prices should be used as leverage for regulatory purposes. Take the adjustment of the industrial structure, for instance. If we offer no price support or restrict prices, we would have a hard time achieving the desired results. Intensifying planned price management during certain stages of price reform corrects the direction of reform and ensures its smooth, healthy progress, without delaying or accelerating it. It can thus be seen that the planned economy in our sense is part and parcel of price reform.

Second, there is concern that intensifying planned price management may make price reform regress. As we see it, the new price management system should be one which puts more stress on deregulation and less on management, one which is capable of both tightening up and easing up, a dynamic and flexible management system. The extent to which planned price management and market regulation can be combined as well as the form and scope of such combination also should be regularly adjusted and improved according to actual conditions. Otherwise won't the price management system become another rigid system like the old one? When we say the old system was rigid, we mean it was highly centralized and inflexible. The new system we set up cannot be one where most prices are deregulated and unchangeable. Nor can the process of creating the new system be an uninterrupted process of straight deregulation. Prices are a means of national economic leverage. Price reform cannot be carried out in isolation but must be coordinated with overall economic structural reform. When the conditions in which prices function as regulators and the objects of their regulation have changed, the method of regulation must change correspondingly. Otherwise, the regulation will be ineffective or even counterproductive. When prices are deregulated, only to cause new price distortions resulting in imbalances in the industrial structure, or when wild swings in prices become destructive to natural resources, we must tighten the screws and let the state fix prices. The price reform process itself is directed toward the overall goal of reform, but there is no guarantee that there will not be an occasional deviation. This is because reform itself is a form of exploration. When we make a mistake and correct it quickly, we are displaying precisely a reform attitude of seeking truth from facts, not backtracking. Right now the national economy is clearly inflationary, and some deregulated prices tend to be distorted. Temporarily reimposing state planned management on these prices will help stabilize the national economy, optimize the price reform environment, and consolidate the achievements of reform.

Third, there is the concern that intensifying planned price management will lead to price distortions. It

should be recognized that the irrationality of the old price system was directly related to the traditional highly centralized planned price management system. However, we cannot conclude from this that planned price management is bound to lead to price distortions. Planned price management under the old system could be faulted for its one-sidedness in both theory and practice, but the more basic reason for price distortions is the misunderstanding of economic principles, errors in guiding thought, and failures in the economic system. Today we understand socialist economic principles better. The economic system is becoming rationalized through reform. Price management is not its old self either in form or substance. The principle of planned price management is managing within the framework of the law of value. In terms of substance, price management means more than simply managing actual commodity prices. It also includes planned management of the general price level and planned guidance of deregulated prices. That is why we say that whether prices will become distorted is mainly a function of the scientific nature of planned price management and has less to do with planned management per se.

#### D. Issues That Must Be Addressed and Resolved Before Planned Price Management Can Be Achieved

1. Make the control planning of the general price level an important parameter of national economic planning overall. After the goal of overall price level control planning is set, all the targets of national economic development must be determined on that basis. All major proportionate relationships also must rest on that basis. A national economic plan devised in this manner will certainly promote stable coordinated development. In this way price control will rest on a solid, reliable foundation. If we are to make price control the central purpose and an important parameter of steady economic development, we must tackle one issue urgently, and that is determining the relationship coefficients between prices and various leading economic indicators. Only when this issue is resolved can the price control objective become a true parameter. Armed with decades of development experience and modern computational methods, we are fully capable of resolving this issue. Needless to say, we need to make micro-adjustments at all times in light of the operational situation of the national economy, the progress of economic structural reform, and the extent to which the economy is being commercialized, to ensure that the coefficients are always accurate.

2. Commodity prices under planned management must be systematic. This essentially refers to consistency in price management between inputs and outputs. Right now situations like this abound: The prices of inputs are under planned management while those of products heavy on materials and light on labor have been deregulated. Once the prices of inputs are adjusted, the adjustment is fully passed on to the prices of outputs. Consequently, price ratios remain unchanged. Alternatively, when the prices of inputs are deregulated, the

prices of outputs are placed under planned management. Frequent fluctuations in the prices of inputs means that the prices of outputs must be adjusted often as well. We cannot demand that the price management of inputs change in tandem with that of all related outputs, and vice versa. But we should give special consideration to making the management of key commodities—particularly commodities that are heavy on materials and light on labor—coherent.

3. Price adjustment policy-making must be democratic. A democratic price-adjustment process must be established for commodity prices under planned management to ensure that policy-making is scientific. At a time when the old system is giving way to the new, price formation is influenced by a complex array of factors. There is no guarantee that an individual's or even a handful of people's judgement of objective conditions will be comprehensive or accurate or that a policy based on such a judgement will be free from errors. Because of the current inflation, in particular, the boundaries between justifiable adjustments and unjustifiable adjustments are not clear. Nor is the extent to which adjustments should be made always obvious. Under these circumstances, policy-making readily becomes guesswork. To deal with this problem, national agencies in charge of prices should come up with detailed regulations on democratic policy-making to guide governments at all levels as they create their own democratic decision-making system.

4. Inappropriate sliding price policies should be abolished. Sliding price policies essentially refer to those which apply different price policies to different producers of the same commodity. For instance, state-owned enterprises and township and town enterprises may be making the same kind of product, but the prices of the products made by the state enterprises are not deregulated, while those of their township-enterprise counterparts are. It is the same kind of product, but large enterprise are under planned price management and command allocation and transfer, while small enterprises enjoy deregulation and are free to market their output on their own. This kind of sliding price policy has made it harder for enterprises to compete on an equal plane. Consequently, small enterprises often squeeze out large ones, the inferior squeeze out the superior. This militates against the sound allocation of resources and the implementation of planned price management. In our opinion, a sliding price policy for the same product should be carried out only when it does not undermine fair competition. For example, when we deregulate the price of a product made by some enterprises while demanding that other enterprises making the same kind of product follow state-fixed prices, we should compensate the latter with raw material supply, tax benefits, lower interest rates on loans, and financial subsidies. Present sliding price policies not thus equipped should be phased out. Sliding price policies between different industries are another matter.

5. We should proceed cautiously with the regionalization of price reform. The regionalization of price reform, it

must be acknowledged, spreads out the repercussions of reform. Nevertheless, its negative side effects are also evident. To begin with, it induces copy-cat price increases. Commodities are the vehicle for prices. As prices soar in one locality, the mobility of commodities is bound to give prominence to the resulting differences in prices between this locality and other areas. The other areas are not able to reconcile themselves to the existence of such differences and the result is that areas raise prices in order to keep up with their neighbors. Thus what starts out as a regional price hike becomes a nationwide price hike. Second, it gives rise to regional blockades. Prices have risen in a locality. Other localities cannot match those increases and are not reconciled to the consequent losses, so they either limit the export of local low-cost raw materials or block the import of expensive products, thus artificially fragmenting the market. Third, it makes planned price management hard to implement. In our opinion, therefore, we should carefully weigh the pros and cons of this reform strategy and choose cautiously.

#### Measures Proposed To Improve Commodity Circulation

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[Article by Liu De (0491 1795) edited by Liu Qichang (0491 0366 2490): "Step Up Macroeconomic Regulation and Control To Enliven Commodity Circulation"]

[Text] Following the implementation of the party Central Committee and State Council's guidelines for improvement, rectification, and deepening the reform over the past year and more, comparatively clear-cut changes have occurred in the circulation realm of material resources: Supply conditions for the main material resources have changed from all-round stringency to a substantial increase, consumption has been reduced, and there has been an obvious easing of the supply-demand contradiction; market prices of materials resources have shifted from rising on all fronts to becoming stabilized with the tendency to fall slightly and, in some cases, the fall in prices has been large in scale; and circulation order in materials has evolved from a state of utter confusion and of various kinds of illegal activities being rampant to one of gradual improvement and to market control being strengthened. Actual practice has shown that the series of measures of improvement and rectification enforced by the party and the state have been correct and should be continuously insisted on. However, at the moment many problems are still found in materials circulation. The principal ones are: Over-dispersal of material power, non-enforcement of mandatory planning, and low fulfillment rate of state purchasing contracts; units dealing in material resources are too many in number and too random in quality and the circulation order has not turned for the better; the inability of material departments to perform their functions of uniformly planning and controlling the circulation of materials of entire society and the state's generally weak capability to effect

macroeconomic regulation and control over material resources; and the ideas and understanding on materials circulation on the part of relevant departments is neither united nor unified and the reform measures are not coordinated, thus causing certain difficulties to the improvement and rectification work, and so on. The definite solution of these problems and pushing forward in a down-to-earth manner of the improvement and rectification of materials circulation possess important significance in promoting the sustained, stable and coordinated development of the national economy.

## I

To further perform a good job in improving and rectifying the circulation of material resources, it is necessary to earnestly implement and carry out the "Decision on Further Improvement, Rectification, and Deepening of the reform" adopted at the Fifth Plenary Session of the 13th CPC Central Committee, abide by the principle of combining planned economy with regulation by market mechanism, appropriately strengthen centralization and unification, augment the state's ability for macroeconomic regulation and control over the circulation of material resources, and overcome the phenomenon of over-dispersal and scattered material power.

Over the past 10 years and more, defects have been experienced such as: The over-tightening nature of past control of material resources structure; overlooking the functions of commodity production, law of value, and regulation by market mechanism; adopting a series of reform measures such as reducing the volume and scope of the state's mandatory planning in the distribution of material resources and expanding the relative weight of regulation by market mechanism; readjusting the planned prices of a portion of the products and correspondingly opening up the market prices of material resources outside the plan; setting up exchange markets for various kinds of material resources and material resources exchange centers; and so forth. These measures have served to break through the old concept of means of production not being commodities and the old pattern of unitary and planned distribution and allocation and formed a pattern with many economic constituents, many operational forms, and the co-existence of many circulation channels and set up a market for means of production at the initial stage. As a result, the whole materials circulation area has been much more enlivened and the development of a planned commodity economy has been greatly promoted. However, concurrent with this, in the guiding ideology there has been insufficient understanding of the nature of the market for means of production and the nature of the progressive growth of the market. The role of the market has also been exaggerated while in actual work there have been trends, such as cutting down mandatory planning too much and too abruptly, heavily emphasizing decontrol, looking lightly at control and even allowing decontrol to replace control. All this has resulted in the: Over-dispersal of material

power; weakening of the state's ability in macroeconomic regulation and control; distribution and allocation of resources heavily tending to slant toward non-major production and construction units; confusion in circulation order; and seriously adverse effects on the sustained and coordinated development of the national economy. The major manifestations are as follows:

—The proportion of material resources subject to the state's unified allocation from the national gross output has declined annually, making it difficult to ensure meeting the needs of major production and construction. The proportion of coal dropped from 59 percent in 1979 to 45.2 percent in 1989; steel materials dropped from 77.1 to 42.6 percent; timber, from 85 to 26.6 percent; and cement, from 35 to 12.2 percent. Add to this the fact that in recent years there has been a large-scale reduction in the country's unified imports of certain important materials such as steel, non-ferrous metals, and so forth, and it is found that material resources directly in the hands of the state have been further reduced. In the past it was thought that by reducing mandatory planning, more material resources could be offered to the market and the market allowed to make the distribution and allocation of the resources according to the law of value and supply and demand relations. As we see it now, this kind of thinking does not conform with our country's actual national conditions. The current level of our social productive forces is rather low and under the conditions of a relatively stringent shortage or lack of material resources, the functions of allocating material resources by mandatory planning cannot be completely replaced by the market; besides, a well-led and organized market is not automatically formed once planning is done away with. It requires the relevant parties to carry out coordinated reform and long-term nurturing. In the past it was precisely because of this point not having been sufficiently understood that the phenomena of confusion and disorder in the market, and blindly carrying out development, were not liquidated in time to affect the normal supply of the main materials and resources needed by the major enterprises, major products, and major construction units.

—Fall in the solemn character of mandatory planning and its enforcement worsening increasingly. In recent years, following the continuous strengthening of enterprise interests, departmental interests, and locality interests, and the laxity in discipline, there has been a general prevalence of phenomena such as: Orders for allocation by the state plan could not be placed; or, though placed, the goods ordered could not be obtained; or, though the goods were obtained, they were of inferior quality and not fit for use; products prescribed for delivery by the state were not so delivered; or, if delivered, they were of poor or second-rate quality; and so on and so forth. For example, in 1989, the quantity of steel supplied and delivered by the production departments was 2.66 million tons short compared with the state's allocation plan, about 12

percent of the plan; in the case of five kinds of non-ferrous metals, copper, aluminium, lead, zinc and tin, the actual quantity of orders placed for them was 40,000 tons less than the plan while the actual orders placed for cement were 2 million tons less than the plan. The state made an effort to procure 2 million tons of cement by increasing the purchase price to have it included in the unified allocation plan but actually succeeded in procuring only 600,000 tons.

—Poor condition of fulfillment of order contracts placed by the state and large-scale increase in self-sales made by the enterprises. In the first half of 1989, of the state's order contracts placed on 16 principal material resources the fulfillment rate on 14 was lower than the level in the same period in the preceding year and of these the fulfillment rate on contracts for steel materials and the five kinds of non-ferrous metals dropped by 9 and 8 percent respectively. Although certain objective causes may be taken into account, the main cause can be attributed to consideration for partial interests and a weak concept of interests of the whole. At the same time, the self-sales portion outside the plans in the enterprises greatly increased. In the first half of 1989, such self-sales in steel increased by 13.3 percent over the same period in the preceding year, coal increased by 76.9 percent and aluminium by 38.8 percent. Such a condition of deficit within the plan but a surplus outside the plan has further reduced the already stringent quantity of materials available for unified distribution and further weakened the state's capability of effecting macroeconomic regulation and control over material resources.

—The units in operation were too many and too dubious in quality, while market order was greatly confused. Since the decontrol of the material resources outside the plan, due to macroeconomic regulation and control and supervision work not being able to follow up and the statutes not being in a healthy state, many government organs formed companies of their own and made use of their power and various sorts of relations to deal in the illegitimate buying and selling of materials. For example, party and government organs in a certain province were reputed to have organized over 2,043 companies and many private enterprises and individual bodies also dealt in buying and selling important products and materials, resorting to various means to crash buy goods to vie for business and to reap high and illegal profits. Fushun is a medium-sized town but it had over 360 enterprises dealing in coal, of which only 25 units were actually owned by the whole people. In that city and disparity between the buying and selling prices of one tone of coal amounted to around 100 yuan. These conditions of many and different parties dealing in material resources and carrying out unregulated transactions were somewhat curtailed after over a year's improvement and rectification but the problem is still far from being settled. It has not only caused a rise in commodity prices, increased the enterprises' burden,

and affected financial receipts, but also has lowered the effects of allocation of resources and hindered the enforcement of the state industrial policy.

The abovementioned problems have caused deep harm to the large and medium enterprises owned by the whole people which have been, in effect, the main pillars of support of our country's socialist modernization and construction and the main source of the state's financial receipts. Due to the supply of materials lagging behind, they have to pass their days eating a "hundred sorts of meals" and even "snacks." For example, Anshan Steel annually requires supplementary and accessory materials of nearly 3,000 varieties, over 20,000 specifications and a total quantity of 2.5 million tons. Basically, they had to procure them by themselves from the market. Last year, silicon iron aluminium could not be procured from the market and they had to purchase the native products of village-run enterprises and individual households at each pot of one ton and 10 pots each time. The goods had then to be taken back to Anshan for testing and analysis. This wasted time and labor and increased the cost of production in addition to affecting the quality of the products. But while production in large enterprises was suffering from great difficulties numerous small processing enterprises, which had a low technical level in production and showed poor economic effects, blossomed and mushroomed everywhere in the country. According to statistics, it was found that in the country of the annual newly consumed volume of steel products, 75 percent were attributed to consumption by township and town enterprises. Actual practice was just as Comrade Jiang Zemin pointed out: "If we proceed all the time to weaken and even wholly refute planned economy and endeavor to practice market economy to the full, this will not be workable in China and will inevitably lead to confusion and disruption in economic life and the entire social life." We must organically combine planned economy with market economy, combine opening up and enlivening with control and restriction, and also organically combine development of the market for means of production with implementation of the state's effective regulation and control. Particularly during the period of improvement and rectification, we must appropriately emphasize the guiding role of planning and augment the state's ability and power to effect macroeconomic regulation and control over the important material resources.

## II

To reinforce the state's ability and power to macroeconomically regulate and control important material resources possesses an important significance and is of an extremely urgent nature. First, this is needed to maintain the stable development of the national economy. Means of production constitute an important material foundation of the national economy. The quantity and quality (including varieties and specifications) of means of production possessed by a country are the major earmarks to measure the size of a country's national strength. To maintain the long-term, stable

development of the national economy, it is necessary, if national strength permits, to perform well, including balancing material resources (i.e. means of production), and the four big balances (finance, credit and loans, foreign exchange, and material resources). Balancing of material resources is the balance of the volume of use value, while balancing of finance, credits and loans, and foreign exchange is the balance of value volume. The balance of the value volume ultimately requires the balance of the volume of use value as a condition. Hence, balance of material resources is the material burden bearer of the balancing of finance, credits and loans, and foreign exchange. That is, balancing capital funds. In the past, in the formulation of plans and drafting certain macroeconomic policies, some attention was paid to balancing capital funds but very insufficient concern was shown with balancing of material resources. Gaps were left year after year and the budget formulated was one of "deficits in material resources." Even though balancing of material resources was tried attention was given only to distribution of the gross volume and not much to structural balance; also, attention was given only to the distribution of material resources comprehended within the plan and not to the regulation and control of extra-plan material resources. As a result, the condition of the stringent supply of material resources became daily aggravated and insufficiency in gross volume and imbalance in structure co-existed. In a definite sense this has been the main cause of the several economic big setbacks since the founding of the republic. Under the present conditions of over inflation of the construction scale and social consumption demand, the contradictions in the economic structure being extremely prominent, and the serious imbalances in the proportional relationships between industry and agriculture, the processing industry, and the basic industry and production and transport, if no effort is made to adequately strengthen the state's regulatory and control power and ability and do a good job in balancing material resources, then the unstable condition of the economy will worsen. Second, this is also needed to ensure and protect major production and construction. Major enterprises, major products, and major construction projects have a bearing on the national economy and the people's livelihood, are related to providing stamina for economic development, and their normal needs must be protected as a priority. Unfortunately, at the moment financial power is scattered too much and the state holds in its hands too little of the material resources and is more or less powerless to fulfil its desire to protect the major projects. When the market is in a stringent state, the materials departments and state-run materials enterprises are powerless to dump goods into the market to depress the commodity prices and to stabilize the market. At times of market weakness they are equally unable to buy in the commodities to protect the interests of the producers and to display the functions of a "reservoir" which they should play. Third, this is also needed in improvement, rectification, and deepening of the reform. If the state's macroeconomic regulatory and control power is not adequately augmented, then the state will not be able to

rationally allocate and distribute material resources, readjust the economic structure, or to effectively regulate supply and demand, guide the market, and stabilize commodity prices even though it so wishes. Then the phenomena of social disorder and various kinds of illegitimate business activities, though after rectification, will be rekindled, the whole economic life cannot be stabilized or become orderly, and the various kinds of correct reform policies and measures cannot be truly implemented. It is necessary, similar to the measures of gradually raising the proportion occupied by national finance in the national income and the proportion of the central government's financial receipts in the whole financial receipts of the country, to adopt adequate policies and transitional measures, such as strengthening the seriousness [yan su xing 0917 5126 1840] of the state's mandatory planning; increasing the varieties and volumes of products subject to the state's guidance planning; stepping up the guidance over the enterprises' self-sales of important materials; and firmly abolishing or merging units of non-materials departments dealing in important material resources so as to increase the proportion of the state's unified allocation and distribution of materials. By so doing, and contrary to certain comrades' criticism of "wanting only plan and not market," it will mean the better combination of planned economy with market economy and development of an organized and well-led market. More importantly it will be unlike what people have criticized in the "reform taking the old road" and consolidates and perfects the accomplished reform and creates the conditions for deepening the reform. Since the Fifth Plenary Session of the 13th CPC Central Committee, this problem has become the common understanding of an increasing number of people and it is now time to take action.

To strengthen macroeconomic regulation and control, make a slanting distribution of resources, ensure meeting major needs, and promote structural readjustment, requires the adoption of effective measures and performing the following several lines of work well:

1. Strengthen the management of demand, readjust the demand structure, and realize the basic balancing of material resources. Balancing of material resources is the foundation of comprehensive balancing of the national economy. Imbalance in material resources and over-brisk demand inevitably lead to a portion of monetary demand losing its material protection and to monetary inflation. It makes the limited material resources slant toward unimportant units, skillful in their manoeuvering tactics, and aggravates the imbalance in the economic structure. In order to rationally allocate material resources it is necessary to start from depressing social demand, endeavor to increase effective supply, and properly fix the balancing of the principal material resources. Absolutely refrain from doing such things as "cooking without rice" and "frequently cooking with little rice." Concurrently, we should actively readjust the demand structure, keep down demand of an ordinary nature and give priority to satisfying those kinds of

demand which can increase effective supply. Structural readjustment and balancing of the gross volume are inseparable. In the event of an imbalance in gross volume, contradictions of a structural nature will become all the more prominent. If the structure is not improved then even though there is a balance in gross volume, the socioeconomic results cannot be good. After more than a year of improvement and rectification, the contradiction between supply and demand in material resources has been clearly loosened and a situation whereby there is the co-existence of plentifullness and shortages, and of both long and short supplies of commodities, has appeared. But, all in all, there has been no basic change in the pattern of gross demand exceeding gross supply and certain underlying factors causing inflation in demand have not been basically removed. It is estimated that before long the current weak market will react and the supply of certain basic raw materials will again tend to become stringent. For this reason, we should not allow the slightest bit of laxity in control of gross volume but must continue to adopt determined measures to depress the scale of fixed assets investments, control the speed of growth of the processing industry and, most importantly, tightly grasp readjustment of the structure and devote utmost efforts to readjusting the structure of the products, "restraining the long and assisting the short."

2. Adequately increase the relative weight of material resources under unified distribution and allocation of the state and strengthen the state's ability and power in regulation and control. This is needed to ensure and protect the major production and construction tasks, facilitate the readjustment of the industrial structure and maintain the stamnia for development of the national economy. Under the present conditions of the shortages in material resources, low-level development of the market, and imperfection of the mechanism, it will not do for the major production and construction to depend solely on free market exchanges to procure the needed materials. They must principally rely on the state's planned distribution and allocation. However, at the moment, the state holds in its hands too little of the important materials and, based on the normal needs of major production and construction, the needs of developing agriculture, light industrial products with a bearing on the national economy and the people's livelihood, important products for export, and the need to raise the ratio of the central government's financial receipts relative to material resources, it is necessary to adequately increase the relative weight of the materials subject to unified distribution and allocation. Hence, there cannot be any further reduction in the base figure of the original delivery by the enterprises of materials to the state for unified distribution and allocation. In the case of the base figures being too low, due readjustment should be made. Of the products turned out by raw materials engineering construction projects built by state investments and products newly produced by raw materials producing enterprises which have made use of the

state's preferential policy in carrying out technical transformation, a pro-rata portion based on the state's investments should be delivered for incorporation into the state's mandatory distribution and allocation. Regarding important materials and materials for special use which the enterprises sell themselves, the state should also carry out the necessary guidance and enforce the system of production-demand liaison of fixing the spot, fixing the quantity, but not fixing the price. That is, take a slice out of the products for the enterprises' self sale and allow the state to guide its sales to major production and construction units, prices to be negotiated by both parties. That is, fixing the point and the quantity but not the price. This will be a basic form for the state's guiding policy over the market and should be developed with great efforts and supplemented by the necessary encouragement and restrictive measures. The relevant departments and production enterprises should consider the whole situation, consciously accept the state's guidance and principally sell their products to the major production and construction units.

3. Strengthen the overall concept and add to the seriousness of plans. Mandatory planning is a closely linked materials distribution structure, related to various localities, departments, and enterprises, affecting everyone and, in the event of one link getting out of order, hundreds and thousands of other links are affected even to the extent of hindering the normal working of the national economy. All localities, departments, and enterprises having tasks assigned by mandatory planning must consider the overall situation, overcome various difficulties, resort to thousands of ways and means to protect and ensure the complete fulfillment of mandatory plans, and earnestly rectify the condition of the current non-implementation of unified distribution plans for materials and drop in the fulfillment rate of agreements on purchasing commodities. They should accomplish "sharing in the distribution tasks, effectively placing orders, achieving the delivery of goods, and making sure that the goods are fit for use." For the sake of strengthening the seriousness of mandatory planning, a set of planning control measures which embrace production, distribution, supply, supervision, inspection, awards and punishment, and rational adjustment and regulation of materials both inside and outside the plan should be formulated. This can clarify responsibilities, provide legal protection, and lead the management of materials under mandatory planning onto the track of legalization.

4. Make a slanting distribution of materials in accordance with the state's industrial policy, protect and ensure the major projects and points, and support the superior and curb the inferior. Materials departments should in coordination with the relevant departments, clearly find out the needs of major enterprises, major products, and major construction projects in conformity with the state's current industrial policy. Based on the possibilities of the moment, they should differentiate between those which are important and urgent and those

which are not, make out namelists of essential units, and enforce so-called "two-way assurances." That is, the state ensuring the principal production conditions and the major units concerned ensuring that they will faithfully deliver their products to the state. The major units should have the assurance that not only materials within the plan would definitely be provided to them but also materials outside the budget, including those products for the enterprises' own sales; materials and products from joint or cooperative production; newly developed materials and products; materials in storage; and materials from self-organized imports would be provided to them with priority. Those small enterprises and township and town enterprises which are technically backward, turn out substandard products, involve a high consumption rate of raw materials in production, or are not in conformity with the state's industrial policy, should be subjected to restriction or stoppage of the supply of important materials. This will force them to suspend operation, shift to another trade or production, or be reorganized and merged with other units.

5. Strengthen import and export control and have the two markets, domestic and international, organically combined and put into operation. Following the expansion of opening up to the outside world, liaison between the domestic and international markets is becoming increasingly extensive and closely-knit. We should fully utilize the international market to serve our purposes so as to supplement our shortage in materials. At present, there are certain units which, seeking gains from price differentials between the two markets, have blindly exported materials which are in serious shortage in the country and have thus aggravated the supply-demand contradiction in the domestic market. Then there are certain other units which, lacking scientific forecasting, blindly imported certain materials and caused huge stockpiling and losses, thus affecting the normal production of domestic enterprises. Hence, it is necessary to strengthen guidance and control over the import and export of important materials, strictly control the export of commodities already in short supply in the country, and actively organize the export of materials which are in plentiful supply. Imports must be subject to scientific guidance. On the one hand we must strive to import more and better materials which are in short supply in the country and, on the other hand, we must guard against importing blindly. The materials department is important and in charge of the state's macroeconomic regulation and control. It is more or less well-versed in the conditions of production and consumption. For the sake of more effectively and comprehensively using the domestic and international markets, the two sources of materials, and the two kinds of prices, strengthening the state's power and ability in macroeconomic regulation and control, promptly regulating domestic supply and demand, and satisfying the major production and construction needs, we should give the materials department the necessary import and export power so that it may do a better job in import and export trade.

6. Further consolidate and rectify the materials' circulation order and fully display the role of subordinate enterprises of the materials department serving as the main channels. At present, it is most important to resolutely liquidate and consolidate the operation units of various kinds of materials. Regarding operational units subordinate to the materials department, since they have already gone through more than a year's improvement and rectification, the major work should be in their internal construction and handling of economic cases. As for the materials handling units in society at large, the main work should be to examine their qualification for operations. All those units which do not take up any supply tasks, or which: Specially deal in rebuying and reselling to make profits; actually do not have the conditions for operating; and are private or individual concerns handling certain important materials, must be resolutely eliminated or amalgamated. At the same time, we must speed up the building of market standards, tightly grasp the formulation of basic market regulations and rules, and realize the opening up, standardization, and legalization of materials exchanges. Following the liquidation and consolidation of the various kinds of handling units, enterprises subordinate to the materials department will have their role as the main channels prominently displayed and the relevant departments of the state should give them due support in respect of policy, capital funds, and transportation facilities. The enterprises themselves should also strengthen their internal organization and construction, improve their own quality and caliber, carry out the state's policies and statutes in an exemplary manner, wholeheartedly serve production and construction, actively ensure supply and promote sales, and make the necessary contributions to making production and demand closely related to each other, stabilize the market, and enliven circulation.

7. Strengthen price control and gradually reduce the defects of the "double-track system." The "double-track system" in prices of means of production is a transitional measure adopted to suit the old and new structures. Its existence has its own objective inevitability. It plays an active role in protecting and ensuring major points and projects, implementing industrial policy, and stabilizing the whole economic situation. However, it also has certain outstanding defects. Under the present conditions where it still cannot be abolished, we must strengthen control over it, making good use of its strong points and keeping down its weak points. First, based on the state of economic development, we should adopt the method of "two-way regulating and make them gradually approach each other," and gradually shorten the gap between the two tracks of prices. In the case of planned prices, particularly those of coal, erude oil, and certain basic raw materials, they should be increased appropriately based on changes in the cost of production and supply-demand relations. As for market prices, depressing demand and rectifying market order, we must enforce the measure of imposing upper price limits so as to lower them or reduce the scale of their rise. After a few years' efforts, cause the prices within and those outside

the plan to generally approach each other and realize the smooth transition of a union of the two tracks. Second, we should step up control and supervision and sternly deal with such illegal activities as refusal to abide by price ceilings, stirring up price upheaval, selling inside-the-plan materials at outside-the-plan prices, and so forth. Third, regarding certain important materials subject to production and handling of a monopolistic nature by a minority of localities, departments, industries and trades, and enterprises, the state should carry out necessary intervention on two sides, namely, the price of the materials and the direction of their flow, present monopoly and protect and encourage competition.

### III

There is still another problem which is worthy of attention concerning how to correctly handle the relations between rectifying the circulation order of materials and continuance of enlivening the circulation of materials. Some comrades have blamed certain existing problems in materials circulation on opening up, enlivening, and developing the market and have doubted the importance of circulation and the necessity of market development. They have gone to the extent of considering as "illegal" the reform measures on enlivening circulation which have been so effective and they have rashly negated them. This has caused confusion in ideology and passiveness in work and the problem urgently needs clarification and solution.

Under the conditions of a commodity economy, circulation is an important stage in the course of social production. It brings about the liaison between production, distribution, and consumption determined by production and becomes an indispensable and intermediate link between production and consumption. It can be said that reproduction in the commodity economy is the unification of the production and circulation stages (including the selling and buying stages). Production determines circulation while circulation plays a counteraction role on production. If products can smoothly move along in the circulation stage, then production development can be facilitated, otherwise the development of production will be impeded. Circulation of means of production is particularly important. It brings about a close liaison between production and consumption of a productive nature. Purchasing the means of production needed in production and consumption of the means of production from production both must go through this sort of circulation for completion. Besides, to a definite extent, it liaises with consumption of a livelihood nature (such as purchasing construction materials needed in residence construction) and has a direct or indirect influence on the people's living standards. Without the smooth circulation of the means of production in time and in space, social reproduction and the entire economic life cannot be in normal operation. As Marx and Engels pointed out, these two functions of production and exchange (the general body of exchange is circulation) restrain each other every instant and influence each other to the extent that they may be

termed the lateral and vertical lines in an economic curve. Whether or not means of production can circulate smoothly, including whether or not the commodities are sufficient and marketable and if the course of their circulation is as short as possible, takes as little time as possible and incurs as little expense as possible, bears an important significance on the development of social production, improvement of the people's living standards, and enhancement of the economic benefits. An important cause of our country's low-level socioeconomic benefits is that circulation, particularly of means of production, is backward, irrationally organized, and is not suited to the demands of the development of a planned commodity economy. At the moment, there is no basic change in the situation of social gross demand surpassing gross supply. In the meanwhile, a state of weakness has appeared in the market and a certain portion of products are suffering from stagnation in sales and even stockpiling. Under such conditions, many enterprises, particularly large and medium enterprises, have met with various sorts of difficulties. An important cause of this is circulation not being smooth. Many causes have contributed to making circulation unsmooth. Of these many are related to: People looking down on, and their bias against, circulation; little active effort made to enliven circulation since the reform; the many passive phenomena shown in the lack of coordination and defects in work in the reform measures; and to the injustices in treating and dealing with normal business activities in commodity change as unlawful acts which naturally weakens and harms the enthusiasm of the circulation enterprises and their staff members and workers.

Recently, Comrade Li Pang emphatically pointed out that we must try all ways and means to open up markets, enliven circulation, ensure supply, and promote sales, to serve the sustained, stable, and coordinated development of the national economy. In enlivening circulation we must first of all demarcate certain policy limits and clarify what constitute legal operations and what are illegal operations. Regarding circulation of materials, we have before us a series of problems which need study and solution. For example, we can mention the following:

Problems regarding the adjustment and reciprocal exchange of materials inside and outside the plan. At present, our country is in a transitional period between the old and new structures and there are two categories of materials and two kinds of prices in existence, inside and outside the plan: Against the daily inflating social demand the production capacity of certain important materials is sadly inadequate and the contradiction in supply and demand (including both quantity and variety) will continue to exist for a rather prolonged period; communications and transport are in a tense state while the conveyance of news and information is backward; and planning work is at a low level. Under such conditions it has frequently happened that "despite distribution having been designated by the state, there was nowhere to place the order for the goods; that though

orders had been duly placed, the goods could not be procured; and that the goods which were procured, were no good." Such phenomena appeared to unavoidable. In order to prevent delays in production and construction and avoid "goods falling dead on the spot after procurement," as early as 1986, the relevant economic departments of the state clearly prescribed that materials enterprises be allowed to sell at market prices those materials inside the plan which were found to be unfit for use, that the price difference be separately entered in the books without being treated as profits, or put in sue and circulation, and that subsequently the enterprises concerned be allowed to buy from the market the appropriate materials to supply to the production and construction units concerned. similarly, when a materials enterprise contracts to supply materials to a production or construction unit, if the materials inside the plan do not arrive in time, it is permitted to deliver to the unit concerned materials outside the plan instead and when subsequently the materials inside the plan have arrived, the same may be sold at market prices, any price difference being given to the unit concerned. All this is reasonable and should be permitted although doing so might have certain defects and inspection and supervision should then be strengthened. However, the entire procedure should not be disallowed.

Problems concerning the circulation links or stages of materials. Intermediate stages or links in materials circulation should be reduced to the minimum. But, following the development of commodity economy and for the sake of achieving the best socio-economic benefits, circulation has become increasingly separated from production and has become an independent department. It is no longer necessary or possible for many materials to be directly supplied by the producing enterprises to the end users. Rather, they now go through an intermediary in the materials enterprises. As for how many stages or links are required in the intermediary process, it is very difficult to determine this scientifically because our production technique level is still at a low ebb. If the actual conditions are disregarded and an arbitrary stipulation is made, then it is possible that manmade hindrances are caused to circulation. In prosecuting their buying and selling activities, materials enterprises should put the socioeconomic benefits in first place, implement proper and rational economic principles, and must not buy and sell at every hand to reap huge profits. Between enterprises of the same level subordinate to the same materials department, and between different business units subordinate to the same materials enterprises, there should not be reselling of materials. The same batch of materials, once sold, should not be bought back for resale at a higher price. However, purchases and sales of materials between materials enterprises at different levels and in different localities and other production and business enterprises should be permitted, since these frequently are the needs for development of the commodity economy.

The problem of materials enterprises making reasonable profit. Enterprises subordinate to the materials department have the double functions of organizing the supply of within-the-plan materials and selling outside-the-plan materials. They are thus the state's tools in regulating and controlling the market for means of production and are also relatively independent and autonomous operators and dealers in commodities who are solely responsible for their own profits and losses. They should be allowed to gain profits through legitimate operations, flexible buying and selling tactics, rendering good-quality services, and building the enterprise through diligence and frugality. they should not engage in illegal activities such as bribing when buying and selling, the random and rash raising of prices, and so forth. Many localities have already set up standard profit rates for sales made by materials enterprises. These standardized rates should be strenuously adhered to and should not be violated. However, under the conditions of commodity economy, profits and losses in business operations are unavoidable phenomena. Calculation of the profit-making rate should be based on the yearend final accounts and be thus audited. Auditing should not be done on piece-by-piece basis to facilitate materials enterprise concerned to even up the transactions, compensate losses by gains and vice-versa, and thus enliven the business operations. As for the problem of fixed prices for materials and collection of fees at intermediate or midway points, whatever the state has fixed, such as upper price limits, circulating prices, and fees collection standards, should be strictly carried out. When no definite regulations have been made, the principle of following the practices of trade and market, but at prices slightly lower than local market prices, should be followed and participation in regulation by market mechanism should be resorted to. Regarding this problem, relevant stage departments have already made clear stipulations thereon. These regulations should continue to be carried out so as to maintain the stable character of government policies.

Regarding the problem of award, and encouragement to supply and sales personnel. The work by these personnel has its special points and both its flexible character and intensive character are relatively great. It is necessary to give a fixed reward and encouragement to these people and this entirely conforms with the principle of distribution according to work. It plays an important role in arousing the enthusiasm of the personnel and enlivening the circulation of materials. It should be firmly insisted on and not readily discarded. A the same time, it is necessary to strengthen the education and control of the supply and sales personnel, sternly prohibit their giving or accepting bribes, including taking commissions or "rebates." The system of awards and encouragement should also be improved and perfected. For example, the awards should be linked with the work effects (including the level or caliber of supply and responses to the major production and construction units). Levying and management of the individual's income tax should also be augmented.

Regarding the problem of private individuals dealing in means of production. At the present stage, individual and private economies are the necessary and beneficial supplements to the socialist economy. They play an important role in such aspects as filling the insufficiency in state-run collective economy, invigorating the consumption market, facilitating production and the people's living standards, providing employment for workers, and so forth. Regarding the problem of whether or not individual and private economies should deal in means of production we should, after summing up the experiences, make an earnest study. In view of the facts that some means of production are plentiful and some are in short supply, that is, the coexistence of both of these phenomena, the state's ability for macroeconomic regulation and control, and materials enterprises' role as the main channels, are both not strong enough, and that in certain localities, particularly along the coast, the individual and private economies have already established a base in dealing in means of production, it may not be exactly right to ban private individuals from so dealing in means of production. Conceivably the following measures may be adopted: 1) Fixing the scope of operations and allowing dealings in only non-important materials; 2) Stipulating the end-use of the materials, that is, to be limited to meeting the masses' livelihood needs; 3) Limiting the volume of the dealings, for retail sales only and not for wholesale; 4) Strengthening tax collection and control and supervision of prices.

The purpose of improving and rectifying the sector of materials circulation is to better display circulation's active role in production and to more effectively and rationally allocate material resources. Adequately centralizing material power is to treat the scattering of material resources and not to abolish the markets; rectifying market order is to treat confusion and not to strangle the market to death. We must push improvement and rectification with the spirit of the reformist and in deepening the reform in the course of improvement and rectification, it is first of all necessary to earnestly consolidate and perfect the reform policy measures which have already begun. It is most important to maintain the corresponding stability of the basic policies since the reform and opening to the outside world. Policy stability is connected with stabilizing the people's minds and only when the people's minds are at ease can there be economic stability. Many of the policies of enlivening the circulation of materials are the creations of the masses in the actual practices in reform and have been deeply rooted in actual economic life. They are closely related to production and construction and the people's living standards. They must be handled and treated with extreme care. We must seek truth from facts and refrain from leaning to one side and carelessly effecting changes. Those policies are proper and rational should be continued and firmly insisted on. Those that are not perfect should be improved and perfected by means of investigation and study and full discussions on all sides to

protect and display the activism and enthusiasm of the enterprises dealing in materials circulation and their staff members and workers.

#### Cause of Economic Problems Reviewed

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[Article by Shen Liren (3088 4539 0086), Economic Institute under the Jiangsu Academy of Social Sciences, and Dai Yuanchen (2071 0954 2525), Economic Institute under the Chinese Academy of Social Sciences, in February 1990: "Causes and Evil Effects of China's 'Separatist Economy'"<sup>1</sup>]

[Text] In a country like China which is a large and populous one with vast territory, and with an extremely imbalanced regional economic development, it is impossible to exercise economic management in an indiscriminate manner or solely by the central government. In fact, management by various levels under the centralized leadership is often needed in this case. However, it is necessary to define the system of "management by various levels under the centralized leadership," and clarify the limits of authority of the central government, as well as those of the local governments, so that the two can know well the limitations of their authority; will exercise it in an appropriate manner; can cooperate with each other in a flexible manner; and can give play to the strong points of centralization and decentralization; thereby avoiding those possible shortcomings brought about by excessive centralization, and excessive decentralization.

Over the past 40-odd years, there have been changes in centralization and decentralization. When the authority over the economy was excessively centralized in the hands of the central government, local governments were often simply an intermediate institution relaying instructions from the upper level. Flexible, and enthusiastic acts that suited the local conditions were absent, so that the economic operation was not efficient, and we sometimes missed the most opportune moment for economic development. When the authority over the economy was excessively decentralized into the hands of local governments, the situation turned to the other side. To date, centralization and decentralization are still contradictions yet to be handled properly.

When studying the issue of centralization and decentralization, we must pay attention to the characteristic that, under the conditions of public ownership, government administration and enterprise management are combined together. Also, we must pay attention to the characteristic that China's local governments have two identities. The management by various levels indicates that the identity of local governments is one of the levels of the state performing economic management. It must enforce all economic policies of the central government, safeguard the overall macroeconomic interests. Another

identity is that they are the principal party which organizes regional economic activities. They have their economic interests, and will make their economic decisions on the basis of their interests. Contradictions between overall interests and local interests are often manifested in these identities of the local governments in the form of self-conflict. Consequently, the local governments sometimes adopt inconsistent and contradictory measures, and the situation is not stable. Generally speaking however, in the wake of decentralization following our recent reforms, more emphasis was placed on the identity that local governments are the principal party of the economy, and the partial interests of regional economies were constantly strengthened, so that it is necessary to study the theory on "separatist economy."

### I. From "Contracting Out to the Localities" to "Separatist Economy"

As a result of reforming, and decentralization of power to localities, in all these years, the economic theorists describe the situation as a new economic phenomenon—"separatist economy." In other words, all 30 provinces, municipalities, and autonomous regions across China are like high level dukes and princes under the same emperor; over 300 prefectures, and cities are like those at the middle level; and more than 2,000 counties (cities) are low level ones. With each of them occupying a separate sphere of influence, they pursue their own development without coordinating with each other. Like any kind of simile which has its limits, this description is not accurate; but there is no harm in using this jargon to further study the extensive influence on the current economic development, as well as economic reform, brought by the decentralization of power to localities.

How was the "separatist economy" formed? Generally speaking, its root was the practice of "contracting out to the localities" which stressed being financially independent. At that time, this reform broke away from the traditional system of centralized revenue and expenditure, and that of "eating from the same big pot," thereby mobilizing the initiative of localities in increasing production and practicing economy. However, problems soon emerged. Chiefly speaking, they stressed the local interests and localism, so that the role of local governments was switched from that of managing economic activities onto that of being the principal party of the local economic interests, so that these localities, in order to increase their fiscal revenue, tried all means to develop local enterprises to such an extent that they ignored the state plans, as well as principles of division of labor among localities; blindly engaged in production; constructed projects in duplication; and gradually became "independent kingdoms" and the like. Furthermore, localities which got relatively more revenue, and delivered more revenue to the state, were no longer enthusiastic in collecting fiscal revenue for the state. They even abruptly cut their fiscal revenue so as to offer more benefits for localities, and local enterprises. On the other hand, after the contract system was introduced to urban areas, and the contracted responsibility system

was popularized among industrial (commercial) enterprises in urban areas, a few departments began making on a trial basis "contracts for fiscal revenue and expenditure," "investment contracts," and "contracts for allocation of goods and materials." Later, provinces, cities, autonomous regions, and their subordinates concluded "investment contracts," "credit contracts," "contracts for allocation of goods and materials," and "foreign trade contracts," and so forth. To summarize them, they are called "contracting out to the localities," which thus became a new system for handling the relations between centralization and decentralization. People hold different viewpoints, and often argue, on "contracting out to localities." Some of them are fully convinced that it conforms to the direction of reform, while some other totally negate it, and hold that it will lead our reform in the wrong direction; and still some others take it as a stop-gap or transitional measure, rather than the objective pattern of reform.

Those who are affirmative hold: Centralization must be discarded, and power must be decentralized to localities. How should we decentralize the power? To contract it out is a good method. This is because China is at the preliminary stage of socialism at which the commodity economy is not developed, and the market system is imperfect. Hence, we cannot imitate or copy those measures for a modern commodity economy. Besides, there is only the practice of contracting out to localities, which promote regional development at various levels because the extent of development, and the capability of endurance, vary in different localities.

Those who regard it as a transitional measure hold: The function, authority, and interests of the central government must be separated from those of the local governments, or it will be difficult to yield good economic results. However, such decentralization must be bi-directional. Before the state's administration is really separated from enterprise management, any measure for decentralizing and contracting out to the localities can only be a stop-gap measure. Though to make contracts for fiscal matters is a major achievement, it has a drawback that the relations between enterprises and governments at various levels are intensified. Governments at various levels are enthusiastic in expanding their scale of construction in a bid to build their own system, and protect enterprises which are under their jurisdiction. This thus intensifies the separation of the market, and undermines the optimization of nationwide allocation of resources. Though the approach may bring about immediate interests, it is not the best way to carry out reforms. Moreover, this approach fails to stabilize the relations between the central government and the local ones. What it yields is a distinctive proportion for each locality, and the need for bargaining once every few years.

Those who take a negative view hold: To contract out to the localities is an approach with many coherent problems, and will bring about adverse results. It uses contracting to substitute macroeconomic administration;

and it essentially puts the central government subject to a rigid contract, and weakens rather than strengthens the power of readjustment and control by the central government. Furthermore, the approach puts obstacles against cooperation, and readjustment among localities. This kind of barrier, which does no good in eradicating the practice of separation by departments and regions, does not help the separation of government administration from enterprise management.

Contracting out to localities is a set policy, as well as a prevailing system. Though we affirm its historical role, and reveal its problems in practice, we will not of course withdraw our support for reforms, or restore centralization at the central level. The purpose of analyzing it is to judge its advantages and disadvantages, to understand its positive, as well as its negative, effects on development and reforms. Through this perception, it is not difficult for one to find that the root of problems in the current development and reforms is the existing decentralization practice. Of course, the approach of contracting out to localities is not the only cause for the formation of "separatist economy." To take this as the correct approach is neither a comprehensive nor a fair attitude.

## II. "Separatist Economy," Overheated Growth, and Demand Inflation

The drawback of the traditional economy is manifested as the pursuance of high speed growth in a one-sided manner, and the negligence of economic results, as well as optimization of the structure, so that there was an overheated growth, and demand inflation. There were a number of reasons for this situation, and it was not entirely the fault of localities. It is widely known that this was a kind of "leftist" thinking under which a person becomes impatient for success, so that the objective was a high growth rate; its means were to accumulate in any manner, and the major pattern of its economic development strategy was to extend the expanded reproduction. At the same time, due to the inherent drawback of its system, enterprises which were subject to the soft budgetary constraints would inevitably develop an infinite desire for investment, and would, after having expanded their autonomy, develop an infinite desire for consumption. This indicates that this is an expansion-stimulated economic mechanism. Following the decentralization of administrative power however, the economic objective as well as the economic activities of local governments play the role of further stimulation, and even become the hubs and play the principal party in the expansion stimulation. This fact is reflected in relevant documents: Compared to the old system, following the decentralization of power to enterprises and local governments, the percentage of industrial products directly subject to the state plans was less than 50, and the types of goods and materials subject to centralized purchase and allocation was reduced to 10 percent of the original one, and the types of commercial commodities subject to the state plans were reduced to 12 percent of the original level. However, less than 40 percent of the enterprises actually

have the power to make decisions concerning the manpower, financial resources, material resources, production, supply, and marketing. For the rest of the enterprises, such power was still in the hands of governments at various levels, and in the hands of their respective competent departments. Therefore, the local governments play an increasingly important role in the operation of the national economy. The current overheated growth rate, as well as demand inflation, are related to the "separatist economy" in many aspects. The evidence is:

1. Comparison of growth rate. Under the traditional concept, growth rate, particularly that of gross industrial output value, is the comprehensive index for economic development. There is nothing wrong with this. However, one may make an incorrect judgement on the value of the development as a whole if one pursues speed in a one-sided manner. Similarly, there is nothing wrong with having localities safeguard a nationwide growth rate. But a problem arises when localities compete with each other to attain a higher growth rate despite their conditions, so that there were a number of negative results. One of their motives was to pursue local interests, and the other one was to show off their achievements. This is not an evil intention. But things went wrong when priority was given to the latter rather than the former, in which case one tried all means to achieve its goals. The subject of competition included: Ranking, that is, whoever has achieved the top level in terms of output value and construction scale is ranked first, second, and so forth; and growth rate, that is, who has attained the most rapid rate and who has attained the slowest one. In practice, the provinces, cities, and autonomous regions must, after the state set the growth rate for the coming year or years, set their own index which is often higher than such an average rate. In the backward areas, the reason for doing this was to catch up with the advanced ones, and to narrow the gap; whereas in the advanced areas, the reason for doing this was that they should continue to take the lead as they had a sound basis, and good conditions. Therefore, a "growth rate war," which focused on the gross industrial output value, was started; and became the general direction of localities in their economic work. Eventually, this turned growth into an overheated and abnormal driving force.
2. Expansion of investment. In order to achieve a high growth rate, they adopted a fundamental measure of expanding their investment in fixed assets in addition, to tap their potential. The higher the growth rate the better. This inevitably stimulated more investment. Under the conditions of capital supply system, where there is no self-constraint mechanism, the indefinite desire for investment became an incurable ailment. Local governments expanded their investment by means of: First, requesting the upper level to grant funds to them, and to approve more projects for them, as much as possible. They even exaggerated the advantages, and avoided mentioning the disadvantages, of such projects; second, tapping their own sources, and in the course of working

out their local budgets, requesting projects to be financed by bank loans, so that both their fiscal balance, as well as their credit, were in the red; third, pressing their subordinates, and asking society, to raise funds. They arranged investments in enterprises in such a way that a large number of payments were apportionment levied under all kinds of pretexts by the localities. A major characteristic of the local investment in recent years is that the amount of non-budgetary investment is several times more than that of the budgetary one. Originally, there is nothing wrong with this. Only that the quantity has reached such a level that exceeds both the capability of the state, and the localities. A direct cause for having an inflation of aggregated demand in society was the pursuance of an excessively brisk investment.

3. Expansion of consumption. The expansion of consumption was mainly found in enterprises in the form of arbitrary distribution of bonuses, allowances, and payments in kind. Even though they stopped advocating or encouraging them, they often consented or tolerated the acts, in order to stimulate production, and to improve the living conditions of workers. A point that is worth mentioning is that the role of local governments gradually becomes to encourage, rather than to check, the group purchasing power, as well as the government's demand inflation, in the area of public transport. Relevant documents in recent years indicate that the growth rate of administrative expenses of the state is higher than that of its fiscal revenue and expenditure, and its gross industrial output value, and national income; whereas the growth rate of administrative expenses in localities is higher than that of the central government. A reason for this is, in addition to the ever expanding structure and the ever increasing size of staff, the intensifying tendency of spending extravagantly, in which there was the trend of constructing buildings, halls, and structures; purchasing imported limousines, as well as other high-class consumer goods; and entertaining.

4. Vicious cycle. On the one hand, they pursued a high growth rate in a one-sided and excessive manner, so that their economic results were poor. On the other, they expanded their investment and consumption, so that their fiscal balance, credit balance, and national income and expenditure, were in the red. There was a popular saying that one cannot but maintain a higher growth rate in order to increase the fiscal revenue. Originally, this is a correct attitude under the normal circumstances. Today, both the rate of tax and profit delivery based on output value, and that based on capital, are declining because of the conflicting growth rate and economic results. In the past, the fiscal revenue was generally increased by one percent when there was one percent increase in the gross industrial output value. The gross industrial output value must now be increased by more than 100 or 200 percent in order to achieve a one percent increase in the fiscal revenue. Therefore, to maintain the growth in revenue by achieving the growth in the output value has become a thorny result of the economic growth. Consequently, the higher is the output value, the

worse the economic results; and one must achieve a much higher growth rate in order to increase revenue. This has thus developed a vicious cycle, bringing about an overheated growth, further promoting the inflation, and that the situation becomes worse and worse.

5. Acts against control. Under the traditional system, all decisions on economic matters were made by the central government. Not only did it control enterprises but also undertook the economic activities of localities. At that time, local governments were not the subject of control. Rather, they were an intermediate institution relaying instructions to those which were subject to the control, as well as to enterprises. Today, local governments are both the principal controlled party, aiming at balancing the regional aggregate volume of the national economy at a macroeconomic level, and an independent neutral controlling party in the region. The local governments' role of control should, in principle, be strengthened. However, it is a pity that as a matter of fact, though the local governments wished to strengthen their control, and stabilize the economy, they proceeded from local interests so that their instructions were not carried out by the lower levels, and they intentionally, or unintentionally, wanted to continue to keep their growth rate at a certain level; so that there has been a hard struggle of control and anti-control. The so-called "having measures from the upper level, there are countermeasures from the lower level," generally refers to the nature of such acts against control.

### III. "Separatist Economy" and Regional Separation Share the Same Structure

The formation of "separatist economy" brings about regional separation and similar composition, in addition to further promoting an overheated economy. Objectively, there have been contradictions between local interests and overall interests, even under the old system of great unification. At that time, the traditional system was centralism. A general manifestation of the above contradictions was that the central government paid little attention to the interests of localities, and was unable to fully mobilize their initiative. After reforming, the focus was switched onto decentralization down to localities. The major aspect of contradictions was thus the tendency of excessively stressing local interests, which makes the localities not submit themselves to the overall interests, nor serve them in a better way. The so-called "separatist economy" refers to the same thing though it may otherwise be interpreted as localism, decentralism, or departmentalism. Objectively, it has been there a long time, but is materialized only following the practice of contracting out to localities. Its process is:

1. "Short-term, inexpensive, and quick." What should the localities do in order to speed up their local economy? The first thing that came to their mind was short-term projects which required small investment, and yielded quick results. This conforms to the general rule. It seemed logical that according to the so-called capitalist way of industrialization that we mentioned in

the past, we should develop light industry first, and then later the heavy industry only after we have formed a huge demand for production means. Similarly, it seemed reasonable that local governments should, in determining their economic objectives, give priority to their local and immediate interests. When we undertake large-scale development of the processing industry when the purchase price is lower than the cost, and economic results are on the negative side, however, it is impossible to promptly promote a corresponding development in the upstream industries through market readjustment. Rather, this would make us continuously duplicate the construction of the processing industry, and bring about excessively keen competition. Despite this imbalanced situation, people were afraid to acknowledge that their industrial growth was too rapid, or was a blind one. Instead, they irrationally put the blame on an excessively slow growth in basic industries such as energy resources, and raw materials. Also, they did nothing as the gap was widening until it was at the brink of collapse. On the other hand, enterprises were small in scale, utilized a low level of technology, and achieved poor economic results because of their pursuance of "short-term, inexpensive, and quick" projects. Such abnormal development of local industries thus brought about a huge processing capacity, and a huge demand for energy resources and raw materials (this is the second demand for investment developed by an investment inflation). As we could not correspondingly increase the effective supply, this thus became an important factor for stimulating inflation.

2. Separate system. To engage in "short-term, inexpensive, and quick" projects is not the entire contents of economic development in localities. Another tendency was the development of a separate system. From provinces to cities and counties, everyone was pursuing "large and complete," and "small and complete." Not only did this come from the concept of non-socialization, but also the thinking that it would be better for them to practice self-reliance, instead of asking for help from others, under the circumstances where the market was not fully developed. When one studies the long-term plans of various provinces, cities, and districts, one can see that all of them, with little exception, has a study on every aspect of development in detail, and involves many trades. For instance, areas which produced energy resources proposed on-site processing, while processing areas actively proposed the development of local resources. In a province, one may find more than one factory producing television sets, electric fans, refrigerators, garments, beer, and so forth. One may even find more than one of such factories in a city or county. Therefore, nobody can benefit from the scale of economics. In order to tackle this problem, many of them make things simple, adopt backward techniques, and are marked by a high level of consumption, high cost, and poor quality. Consequently, many regions share the same structure, and its distinctiveness becomes less significant. Upon analyzing industries in several medium-sized cities, one may see that the major industries are just machine-building, electronics, textiles,

food, construction materials, and the like, with each of them having a similar production scale. Suzhou, Wuxi, and Changzhou, as well as Hangzhou, Huzhou, and Jiaxing in the Chang Jiang delta are three twins. To share the same structure is not a way of conforming to the principle of division of labor. Therefore, every locality loses its comparatively good economic results. This is another prominent manifestation of the abnormal development of the national economic structure as a whole.

3. Mutual barriers. With a combination of opening up to internal things and the expulsion of foreign things, the local economy became a loose economic unit. By using administrative authority, the localities mutually set up trade barriers, while vying with each other for resources. Such barriers and competition are the result of protection of local industries. Its manifestation is: On the one hand, the localities checked the outflow of local resources; and on the other, they stopped the inflow of commodities from other parts of China. In the case of the former, the situation then developed into a competition for resources, and was later intensified as a scramble for raw materials in such form as the "battle of silkworm cocoons," "battle of wool," "battle of tea," and so forth. Another instance is that while some provinces did not have sufficient grain, and used a quantity of foreign exchange to import it from overseas, some other province had so much grain that they had more than their depots could hold, but found no one to sell to. Moreover, areas which produced resources stopped supplying resources to the processing areas, while the latter stopped supplying funds and technology to the former. The development of the situation was related to the intervention, as well as separation, of the market by administrative authority, instead of relating to an imperfect market development. A similar situation was found among provinces, cities, and counties. Obviously, this is an obstacle to market development, and is unfavorable to the market unification, or to the standardization of regional markets. It is also unfavorable to upgrading the technology, as well as management skills, of the local industries; and it exists at the expense of resources of society, and the cost of transactions. In fact, the localism has undermined the development of productive forces in this respect.

4. "Random intervention." This refers to the absence of uniformity and continuity among local governments, that is, random changes of actions, as well as uncoordinated moves, by the local government at various levels in the course of enforcing macroeconomic readjustment and control of the regional economy. This is because they gave higher priority to the local and immediate interests, and considered less about the social benefit and long-term interests. For instance, in the current work of consolidation and rectification, the local governments often acted indiscriminately, or deviated from the state's industrial policies, when they cut their fiscal expenditure, and withdrew money from circulation. They did not focus their work on industries which may later increase the effective supply. Rather, they tried their best

to take care of local industries that recently yielded good economic results, or those that were facing difficulties for the time being. In particular, on the issue of bank loans, the local governments ignored the credit policy but focused their work on "fire fighting," so that it was not abnormal to have credit inflation, and continuous losses. In fact, this was an act of "counter-control." It has nothing to do with the system or the market. Rather, it is an act of subjectivism, and a kind of administrative means, or even an instantaneous order from the mayor.<sup>2</sup>

#### IV. Discussions on Relations Between Departments and Regions, and Relations Among Economic Zones

Some people held that we should not describe the contemporary problems as a "separatist economy," and that it was because we did not rationalize the relations among departments and regions, and we substituted economic zones by administrative ones. We hold that there are indeed problems in these areas, but they are not the real causes for the contradictions.

Some people held that the focal point was on the chaotic relations between "department and regions"—provided that these relations are rationalized, all contradictions will be solved. Indeed, the relations between "departments and regions" are a part of our reform which we cannot afford to neglect. In the past, there were fluctuations, and the situation was not stabilized, so that we adhered to the practice of "departmentalism" and that of "regionalism" in turns. In fact, both "departmentalism" and "regionalism" are the decentralization of administrative power. Moreover, "departmentalism" is a specific manifestation of centralism. Only that it is the case where, within a limited space under the decentralization of administrative power, the east wind prevails over the west wind, or vice versa; and no one is able to achieve the optimal point for combining departments and regions. The key is that though "separatist economy" is reflected by departments and regions, the key point is that the use of decentralization of administrative power undermines the change of mechanism. There must be a simultaneous progress in the decentralization of administrative power and the change of mechanism, so that enterprises will put an end to the long-standing situation where they are subordinate to either the departments or regions. Undoubtedly, to decentralize administrative power to localities must adversely affected the vertical administration of the departments. But moves to separate a unified market into regions do not conform the requirements of a commodity economy. Besides, the requirements for having a lateral development of the commodity economy do not indicate the abolition of trade management. Rather, it is planned to merge trade management into regional administration. Thus, we can see that we cannot pin hopes on non-market-oriented measures, such as decentralization and centralization, to rationalize the relations among departments and regions. Furthermore, it is too simple to pick the "department-region" relations as an excuse for the development of such phenomena as the pursuance of output value, and expanded investment by local governments. Similarly,

some people advocated to substitute regional policies by trade policies, so as to make departments break away from regions, or to replace regions by departments. Such an assumption only provides, at the best level, a solution for the dislocation of relations; but cannot solve other contradictions concerning the reality. Moreover, this is impractical in a large country like China. Any attempt to restore centralism is also a retrogressive system.

Some people held that the present problem is the substitution of economic zones by administrative ones. This is a judgement from a market-oriented viewpoint. According to this assumption, the solution would be to give play to the roles of economic zones by focusing on cities. This was a prevailing thinking several years ago, and there was work of exploration, and some breakthrough points were made, in terms of organization, thereby adding new items to our reforms. Facts have shown that it is not possible to substitute administrative zones by economic ones. It is because an economic zone has no prominent boundaries, and different trades have scopes with different ranges, which do not match with administrative zones, thereby losing its operational practicability. The planning of economic zones in key cities still takes administrative boundaries as the zone's boundaries, or the key cities strive to become cities with separate plans, which would become another region rather than a unified market. Even though this promotes the formation of a unified market, problems such as the pursuance of output growth, as well as expansion of investment, by the economic zones cannot be settled in this approach. Therefore, we advocate the approach of giving play to the functions of key cities and economic zones, but we do not hold that this may solve the problems. On the contrary, we hold that the economic zones may become administrative ones because of the role of localities, which are the interested party.

Some people hold: The present problem is the classification of contracts for fiscal matters at central and local levels, without a system of tax sharing. The practice of contracting out to localities is taken as a measure originally planned for emergency purpose. However, once the change in system is headed toward a certain direction, it would have certain coherent characteristics. In particular, when the local governments have gained benefits for the first time in their expansion of their fiscal authority, they would become more active in intervening the local economic development, so that the local governments become an important factor for developing an overheated economy, or an investment inflation party. Therefore, the practice of contracting out to localities indeed played a role in the formation of "separatist economy." However, it is impractical to think that all drawbacks of the "separatist economy" will be eliminated once we have adopted the system of tax sharing. The present taxation structure in China takes circulation taxes as the major taxation category, which is related to the unified market, and it is thus unsuitable to let localities to use it as a source of their revenue. It may be impossible to achieve the expected results of a divided

taxation system without any major changes in the taxation structure. Also, we can realize from our experience in recent years that an expansion of preferential treatment in terms of tax exemption and reduction, as well as a relaxation of management, existed in the local governments even before we adopted the practice of contracting out to localities. They intentionally cut the fiscal revenue, and then developed their local basic facilities and construction by apportioning, as well as established new enterprises by means of fund raising, until we contracted out to localities. Then the situation was improved. We can see that there is a profound reason for the formation of "separatist economy." Though we may change the situation by replacing the practice of contracting out to localities with a divided taxation system, the "separatist economy" will still be there if we do not settle this profound problem.

#### **V. Inclination of Local Government's Role Toward That of Being a Principal Party Is the Profound Reason for Formation of the "Separatist Economy"**

A country under the socialist system has two functions, namely the political function and economic function; whereas a local government under the same system plays a dual role, that is, the role of being the principal party, and that of being the party with economic interests. This is an unchangeable condition. It is unavoidable that the dual role played by local governments will develop some contradictions. The focal point of the problem is, however, that the current system obviously inclines toward economic interests of the local governments, so that when those means of readjustment and control that we utilize touch on local economic interests, our means cannot but give way to them. There will be no justice when the judge is also the defendant. This is the profound reason for the formation of the "separatist economy," as well as the point where both the economic rigidity, and structural rigidity of "separatist economy" lie.

The reason that there is an inclination in local government's role toward that of being a party with economic interests is because our reform, which decentralized the administrative power, put both enterprises and the local government on the same side. Originally, the prominent interests under the traditional system were the overall interests. Neither enterprises nor local governments were the party with economic interests. Though the local governments played a dual role, its main role was readjustment and control. Thus, though the local governments represented local economic interests, they were not strong enough to form a "separatist economy." Following our reform of the economic structure, we decentralized the decisionmaking power to both enterprises, and localities. However, there was no exchange of functions between the central government, which exercises economic function representing the state, and local governments at various levels. Besides, enterprises did not become independent economic entities that assumed sole responsibility for their own profits and losses. Therefore, the decentralization of administrative power

was still linked to the situation where government administration was combined with enterprise management. This thus strengthened the role of local governments in becoming a concerned party, and there were faulty procedures in their economic acts. The key to exchange the economic functions of the governments is to separate government administration from enterprise management, so that the function of direct control over enterprises by both the central government and local governments will be replaced by that of indirect control through the market. In a certain sense, the economic functions of the government may be reduced from the level of operation to that of readjustment and control; and from the pattern that combines macroeconomic control with the microeconomic one, to the one that focuses on macroeconomic readjustment and control. Proceeding from another point of view however, its functions are strengthened from a low level administration to a higher level. In order to conform to this requirement, we should, in the exchange of functions with the local governments, discard those duties which they should not undertake, and select those that they should perform. To switch from centralized readjustment and control at the central level to readjustment and control at local level is an objective requirement for reforming and perfecting the economic functions of the state. Today, our reform has strengthened the interests of local governments instead of meeting this requirement. Therefore, it is inevitable that the local governments hold firm in their hands the power decentralized from the central authority, and hold back from enterprises their existing rights. As the local governments intervene on full scale, the "separatist economy" becomes the focal point of inflation in aggregate volume, and of an imbalanced structure, under the dual system.

When discussing the theory of reform of the socialist economic system, people always take the soft budgetary constraints on enterprises as the cause of the overheated economy and investment inflation. In China however, new enterprises are established by the local governments. Expansion, as well as transformation of old enterprises are often approved and initiated by the local governments. Therefore, this gives people an impression that enterprises have become the principal party of investment. In fact, the most important investing party is the local governments. The difficulty in controlling the scale of investment in fixed assets is that, from the viewpoint of the principal controlling party, it is the local governments which are responsible for controlling the scale of investment. On the other hand, the local governments are the party with economic interests. As inflation of the local investment is directly and indirectly related to the local governments, it is very difficult to ask the local governments to take measures for checking themselves. Unlike enterprises, the local governments, being an controlling party at a lower level, can organize the local strength such as fiscal, banking, goods and materials, commercial, and foreign trade resources, and so on. In particular, when the power of banking administration is decentralized to localities, the local governments may, in

the event that their fiscal revenue drops, ask the local banks to grant loans to enterprises for expanding their investment scale, and realize the local economic interests. This is the significant reason for having an inflation in the scale of investment, and that the utilization of credit capital is out of control, so that the aggregate demand of society is inflated. Of course, the local governments can still perform their function of readjustment and control, and check their pursuit for local economic interests, when the central government solemnly stresses on readjustment and control, or together with the threat of punishment or dismissal, even asks the local governments to resolutely implement the task. Under normal circumstances however, the local governments often give priority to their economic interests when performing their dual role.

#### **VI. A Distorted Market, and a Distorted Pricing System Promote the Formation of the "Separatist Economy"**

Not every formation of an interested party will inevitably bring about a market separation. Being the interested party, enterprises want a unified market rather than a separated one. Besides, they have no strength to separate the market. Unlike enterprises however, the local governments may make use of their administrative power of being the principal controlling party to set up regional market barriers in order to protect the local economic interests, which may thus bring about market separation.

Under the circumstances where market circulation is normal, and pricing is rational, it is not necessary to have a market separation. In the wake of reform however, both the local governments and enterprises, which have strengthened their sense of being the interested party, face a distorted market, and a distorted pricing system. While areas which have a developed processing industry may obtain additional interests by engaging in those highly profitable processed products, areas which produce resources suffer losses because they produce those less profitable raw materials for agricultural products, and for mining products. Therefore, the possibility that the local governments use their administrative power to engage in market separation is turned into reality. Moreover, the emergence of the above phenomena intensifies such separation. First, the orientation of readjustment of the regional composition of industries is profitability of the market. Hence, the local governments engaged in "short-term, inexpensive, and quick" projects on large scale. In particular, areas which produced resources spent major efforts on developing resources processing industry, so as to prevent others from sharing their profits. In the wake of development in the resources processing industry, these areas set up road blocks to prevent their resources from flowing out, thereby causing a shortage of raw materials for processing industries in other areas, and so that there was insufficient work for the industry. Second, after we opened up to the outside, carried out our foreign trade work through contracts, and allowed enterprises to retain some of their

foreign exchange revenue, various localities competed with each other for export resources, so that they launched a number of wars on such items. Coastal areas where there were good export conditions, and their rate of foreign exchange retainment was higher, purchased raw materials from the resources areas and hiked prices. The only solution available to the resources areas was to mobilize a large amount of manpower, and to adopt various measures to block their boundaries, so as to protect their regional interests. Therefore, the market separation which emerged in China under its dual system is different from the protectionist policies in foreign countries. Acts of protectionism are to check the dumping of finished products made in other areas under the circumstances where the competitiveness of enterprises is low, thereby protecting the interests of producers. Market separation in China is mainly to control the local resources and to prevent them from flowing out, but producers of resources do not obtain any benefit because of this. Rather, they keep to their localities the balance between profits derived from the resources and those from the processed products, or they export their resources in order to earn foreign exchange. This just shows that distorted pricing is the real motive for the development of a market separation. To a very large extent, the so-called "separatist economy" is a live description of the market separation. The superiority of the socialist planned economy originally lies, from the viewpoint of macroeconomics, in the achievement of the greatest economic results in the allocation of resources in such areas as composition of industries, location of sites, scale of economics. Though our past work was not satisfactory in this respect, and we did not give full play to the superiority of the planned economy, there is still such a possibility. The dual system in the wake of reform made the macroeconomic means of readjustment and control, including the composition of industries, location of sites, and scale of economics, unworkable because of the actions of local governments. For instance, neither the taxation lever nor the means for monetary readjustment and control functioned properly. As we adopted the practice of contacting out to localities, moves that raised tax rates on trades that were oversupplying products, or on oversupplied goods, would only further stimulate, instead of checking, their development. This is because the local governments might retain more revenue. Due to the intermediate role of local governments, those who suffered more were departments which produced goods that were in short supply, which were under the control of the central authority, when the macroeconomic policies of monetary readjustment and control were implemented. This was because the local governments would make banks give more consideration to the local industries in order to protect their sources of revenue. When all places did the same thing, the development of the processing industry exceeded the capacity of resources supplies, and the phenomenon of keen competition at a low quality level became more serious. Consequently, the economic results derived from the scale of economics, composition of industries, and optimal combination of production factors of the entire

economy were undermined; and the effect supply could not be correspondingly increased in the wake of contribution of additional investment. At the same time, the increase in basic industrial projects brought by duplicated investment intensified the inflation of demand for investment. Therefore, the "separatist economy" intensified the balance in aggregate supply and demand. The root cause for this is the market separation, which is developed with the use of local administrative power under a distorted market and a distorted pricing conditions in order to protect the local interests.

#### **VII. Unfair Competition Encourages Violation of Readjustment and Control Rules, and Strengthens the "Separatist Economy"**

Under the traditional system, the central government used its powerful macroeconomic readjustment and control means to deprive the "separatist economy" of the climate for development. Following the economic structural reform, we decentralized the decisionmaking power to the local governments, and weakened their power of macroeconomic readjustment and control. Furthermore, we did this on a case by case basis. Hence, there were special policies toward Guangdong and Fujian; different open-door policies for special economic zones, coastal open cities, coastal open zones, and the interior part of China; and different administrative policies toward cities with separate planning authority and ordinary cities. Therefore, there were unfair competition among zones and regions, and they experienced different growth rate. The economic difference between the coastal areas and the interior part of China was widening instead of narrowing.

However, it was the time when the local governments were the party with economic interests. Therefore, in order to avoid being affected by the "Ma Tai [7456 1132] effect," areas which saw a low economic development made use of their administrative power, which were entrusted to them as the readjusting and controlling party, to implement those economic policies that were favorable to their own development; whereas areas which saw a fast one did the same in order to consolidate their favorable and dominant position. The so-called "flexible central policies," and so-called being dare to "play touch ball" were acts of advocating violations of rules, and the adoption of counter-measures against the macroeconomic readjustment and control by the central authority. The so-called "three lights" policy, that is, to "skirt around it when the light is red, be quick when the light turns yellow, and push ahead when the green light is on," means that no matter whether the central government urges us to move on or not through its macroeconomic readjustment and control, the local governments try every means to go ahead. Therefore, the so-called "flexibility" means the replacement of readjustment and control by, as well as the policies of, the central authority with the local ones. By acting in this way, the overall interests would be subject to the partial ones, and thus the "separatist economy" developed. Moreover, these localities pursued economic development in areas which

they thought it be favorable to them. They would simply trust to luck, and thought that they would not be affected even though their moves would bring about fluctuations in their economic development. Thus, the departmentalist interests under the "separatist economy" encouraged the thinking of trusting to luck in society, and the preference of continuing their acts, which would cause the national economy to suffer, over that of checking their acts, which would adversely affect the local economic development. This made the "separatist economy" become more attractive and absorb more resources. The emergence of "separatist economy" affected the smooth implementation of the mandatory plans, as well as the readjusting and controlling measures, in respect of which the central government required a smooth progress. Consequently, the extent of shortage was further developed, instead of being eased.

Being the party with economic interests, the local government did not act without getting any benefit. While they were pursuing departmentalist interests, they tried every means to boost their local economies. This thus brought about an increase of regional welfare, which helped stabilize the socio-political situation. When there was no keen competition among China's enterprises, competition among regions was very common and was intensified with each passing day. Therefore, in order to solve this problem, it is not necessary to replace the dual role of the local governments with a single one, or to abolish administration at the local level. Rather, we must, through an exchange of economic functions with the local governments, weaken their role of being the interested party, and strengthen their role of readjustment and control. The reason that we cannot achieve this point at present is that on the basis of combination of government administration with enterprise management, the interests of local governments are mixed with those of enterprises, so that the local governments have developed a rigid concept about interests, and are held back from taking actions of readjustment and control. Only when government administration is separated from enterprise management, and the interests of local governments are superior to those of enterprises, can the local governments strengthen their readjustment and control functions, and distinguish their primary role from the secondary one. Therefore, it is possible for them to carry out the macroeconomic readjustment and control, to check the tendency of stimulating an overheated development, and to use administrative power for the sake of their own interests. Before the realization of such exchange however, the role of local governments of being the party with economic interests is still the main cause for the shortage.

#### **Footnotes**

1. Refer to "Anxious Feelings About the Contemporary 'Separatist Economy'" published by RENMIN RIBAO on 6 August 1989 for a recent and open reference to the current separation of the market in China by local governments.

2. See "Acts of the Local Government and Reform of Its Mechanism" by Chen Dongqi, and others, published in *Study of China's Industrial Economy* No. 3, 1988.

### Role of Enterprise Contract System in Socialism

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[Article by Yang Peixin (2799 1014 2450) of the Development Research Center under the State Council: "On Upholding and Perfecting the Enterprise Contract System"; dated November 1989]

[Text] The enterprise contract system is the point where socialist construction and reform are integrated; it is also where economic readjustment and the deepening of reforms integrate. Only by upholding and perfecting the enterprise contract system can we build socialism with Chinese characteristics and fully bring into play the superiority of socialism.

Practice is the only criterion of truth. Ten years have passed since the contract system was first implemented in Chinese enterprises, including the Shoudu Iron and Steel Works (hereinafter referred to as Shoudu Steel) and the No. 2 Automotive Works, and it has been more than two years since the contract system was popularized throughout the country in May 1987. Basing ourselves on practice, we can now give an unequivocal answer to the worries and misgivings voiced by the general public and further clarify the position and role of the enterprise contract system in socialist economic structural reform.

#### 1. Has the Contract System Brought About Short-Term Actions on the Part of Enterprises?

Some comrades feared that the contract system would incite short-term actions on the part of enterprises. They were afraid that enterprises would exploit their equipment and resources to make profits, only to distribute and use them all up, leaving the state with nothing but a shambles. These misgivings have been dispelled by facts.

In the 10 years since the implementation of the contract system, Shoudu Steel has not asked the state for a single cent. It has expanded its operations with its own funds, increasing the output of rolled steel by more than one and a half times, or 168.7 percent to be exact, from 1.169 million tons to 3.142 million tons. Since 1981, the profits realized have been growing at an annual rate of 20 percent, with the profit and tax rate on funds reaching 60.67 percent in 1988. In addition to increases in revenue handed over to the state, profits retained by enterprises have also seen rapid growth. At the beginning, 40 percent of the profit retention was spent on the development of production. This was later changed to 60 percent at the suggestion of Shoudu Steel. The ratio between economic performance and total wages was at first fixed at 1:1. This was later changed to 1:0.8 at the suggestion of Shoudu Steel, thereby slowing down the growth of

total wages. This shows that instead of seeking immediate benefits, China's working class has made a conscious effort to spend the bulk of profits retained on acquiring new equipment and developing production. Profits retained by Shoudu Steel over the past decade amounted to 2.78 billion yuan, the bulk of which was spent on developing production. Only 720 million yuan, or 25.8 percent of the retention, was spent on staff welfare and nonproductive expenditure to provide incentive. Shoudu Steel has been able to substantially increase returns on investment because it uses its own funds to expand operation. Over the past 10 years, Shoudu Steel has invested a total of 2.9 billion yuan on self-transformation. During the same period, profits and taxes realized have increased by 6.032 billion yuan. For every yuan invested, 2.08 yuan can be reaped in profits and taxes. Between 1979 and 1987, state investment amounted to 1105.2 billion yuan. Newly-increased profits and taxes for this nine-year period totaled 327.5 billion yuan, the investment returns being 1:0.3. The investment returns achieved by Shoudu Steel is 6.9 times higher than that achieved by the state. With a mere investment of 2.9 billion yuan, Shoudu Steel has built facilities worth 20.1 billion yuan, saving as much as 17.2 billion yuan. In other words, in the 10 years since the implementation of the contract system, Shoudu Steel not only has increased its revenue but has built another one and a half Shoudu Steel using its own accumulated funds.

In the two years since the contracted system was first implemented in Beijing Municipality, eight enterprises of the machine-building industry have invested a total of 169 million yuan on technical transformation, an increase of 47.3 percent over the 89 million yuan two years before the implementation of this system. The net value of their fixed assets has increased by 16 percent to 95 million yuan. Among these enterprises, the Beijing Heavy Electrical Machinery Works was able to put an end to the stagnant situation of only being capable of producing 680,000 kilowatt power generating machines within the first year of contractual operation and proceeded to design and develop 800,000 kilowatt units using Chinese components. Its technical transformation funds have expanded by 70.1 percent from 24.79 million yuan two years before contracting to 42.16 million yuan after two years of contractual operation. The value of its fixed assets has gone up by 424.1 percent from 10.02 million yuan two years before contracting to 52.51 million yuan after two years of contracting. The Beijing People's Machinery Works was able to put an end to the stagnant situation with exports staying at the \$1 million level for many years. Exports increased to \$1.5 million in 1987 and to \$2.29 million in 1988 and are expected to hit the \$4 million mark this year. The factory has begun competing in international markets.

Summing up its two-year experience in practicing the contract system, the Beijing Municipality is of the opinion that it is wrong to assert that the contract system will "inevitably bring about short-term actions on the

part of enterprises." Short-term actions do not have any necessary links with the contract system. On the contrary, truly upholding and perfecting the contract system can help eliminate short-term actions on the part of enterprises.

Before the implementation of the contract system, enterprises are not in a position to accumulate their own funds and undertake transformation and expansion on their own initiative. For instance, the Lanzhou Chemical Industry Corporation, one of the 156 key projects of the "First Five-Year Plan," turned over considerable profits and taxes to the state at one stage. Lacking funds for self-transformation, the corporation is waning. There are many factories like this which are finding the net value of their fixed assets gradually dwindling. The contract system has put an end to this situation. Enterprises begin to develop stamina and have prospects. Contracted enterprises have their own self-accumulation and self-restraint mechanisms. Since enterprises must overfulfill their contracted profit quotas before they are in a position to retain profits and offer benefits to their staff and workers, they must strive to increase accumulation and input. This mechanism of self-stimulation is where the superiority of the contract system lies. This superiority is all the more notable in large and medium-sized enterprises.

Since it has only been two years since the contract system was implemented in an all-round way, the methods of contracting used in various places are by no means perfect. Indeed, there are some enterprises which are seen to be engaged in short-term actions. This situation is mainly found in enterprises operated by individuals on a contract basis. In these enterprises, the contractors are prone to short-term actions in their anxiety to overfulfill the profit quotas. Some enterprises are forced to make short-term plans because they are operating on very short contracts. In some localities, total wages are tied to profits and taxes turned over to the state. The more they turn over, the more they have for distribution. This means that enterprises are not left with the necessary accumulation. Comrade Yuan Baohua 5913 1405 5478 pointed out: The root cause of short-term actions on the part of enterprises lies in the higher authorities. Ever-changing policies, over-lapping policymaking procedures, poor assessment, and undesirable contracting methods will all lead to short-term actions on the part of enterprises. The cause of short-term actions does not lie in the contracted system itself.

## 2. Will the Contract System Lead to the Expansion of Consumption Funds?

Some comrades wondered whether the contract system would lead to the expansion of consumption funds. Some of them had queries about the distribution of consumption funds in particular enterprises, while others attempted to prove their theory by means of macroeconomic analysis.

The characteristics of the contract system is that it combines the interests of the state with those of enterprises and their staff and workers. As Shoudu Steel develops, the welfare and wages of its staff and workers have also improved. Over the past 10 years, some 100,000 square meters of dormitory space have been built. All staff and workers who entered the factory before 1980 have been allocated housing. With a view to supplying the staff and workers with cheap nonstaple food, a number of nonstaple food bases have been built using the company's collective welfare fund. In Shoudu Steel, wages and bonuses are controlled by the pegged ratio of 0.8:1 approved by the State Council in 1985 for total wages and profits realized. On the basis of a 20 percent annual increase in profits realized and a 16 percent increase in total wages, per-capita monthly income rose from 145 yuan in 1984 to 208 yuan (excluding price subsidies) in 1988. This wage level was low compared with Baoshan and Panzhihua Iron and Steel Works as well as tourist hotels, the three kinds of partially or wholly foreign-owned enterprises and collective enterprises in Beijing. For every additional yuan they received in wages, the staff and workers of Shoudu Steel have created an extra 7.52 yuan for the state in profits and taxes. The ratio of total wages to profits and taxes realized has been gradually coming down. The ratio was 0.16:1 in 1978, but dropped to 0.138:1 in 1988. Some time ago, Kang Yonghe 1660 3057 0735, president of the China Society for Labor Studies and former director of the Bureau of Personnel Affairs, headed an investigation team which moved into Shoudu Steel for on-the-spot investigation. The findings were as follows: (1) For every additional yuan they received in wages, the staff and workers of Shoudu Steel created an extra 7.52 yuan in profits and taxes. This is about twice as much as the level recommended by the theoretical circles, that is, for wages to be raised by 1 yuan, there must be an increase of 3-5 yuan in national income. (2) The percentage of total wages in profits and taxes realized dropped from 15.45 percent in 1978 to 13.46 percent in 1986. (3) In Shoudu Steel, profits and taxes realized per capita increased by 2.05 times from 4,717 yuan in 1978 to 14,396 yuan in 1986, representing an average annual growth rate of 14.12 percent. During the same period, wages increased by 1.65 times from 61.15 yuan to 162.07 yuan, or an average of 12.9 percent each year. Since the profits base was fixed at 1.614 billion yuan in 1987, a 20 percent increase would bring in an additional 322 million yuan. A 16.4 percent increase in total wages, then registered at 200 million yuan, would only mean 32 million yuan, a mere one-tenth of newly-added profits. This shows that the growth rate for profits and taxes realized far exceeds wage growth. (4) Output growth exceeds wage growth, with the rate of increase in net output value being registered at 15.45 percent and the average rate of wage increase being registered at 12.96 percent.

From the macroeconomic angle, some comrades drew the inference that the contract system and the system whereby total wages are tied to profits and taxes realized

had brought about the expansion of consumption funds. In 1988, bank payments in respect of wages and other personal disbursement rose by 26.5 percent, while prices went up by 18.5 percent. Some people thus concluded that the contract system had brought about an increase in wages and bonuses in enterprises. In reality, bank payments in respect of other personal disbursement (including interests, premiums and relief) increased by 35.5 percent, while payments in respect of wages only went up by 21.1 percent. After allowing for the increase in the number of workers by 3.05 million, workers' average wage only rose by 19.3 percent. With the cost of living index gaining 20.7 percent, they were actually paid less in real wages that year. In 1988, all-personnel labor productivity registered an increase of 9.3 percent. This, coupled with the price rise factor, should have justified a 30 percent increase in wages. The fact that payments in respect of only rose by 19.3 percent shows that wage growth was below, not above, labor productivity growth. Workers are the victims of inflation. In 1988, workers suffered a devastating 34.9 percent cut in real income. Between January and August 1989, workers' wages were increased by 19.1 percent over the corresponding period of the previous year. Over the same period, prices and workers' labor productivity went up by 26 percent and 3.1 percent respectively while workers' real wages plunged by 34.4 percent. This is a major cause of the current sluggish market and drop in the total volume of retail sales. In China, consumption funds are expanding because 40 percent of investment growth are consumed by wages and removal expenses, "official profiteers" are pocketing large sums of money and social groupings are squandering state funds. With serious inflation in recent years, workers' real wage would definitely have seen a more substantial cut, workers' enthusiasm would have been dampened and industrial production would have suffered a disastrous blow if total wages were not tied to profits and taxes realized. The contract system and the system whereby total wages are tied to profits and taxes realized have in fact stabilized production and the economy and consolidated stability and unity.

### 3. Has the Contract System Reduced State Revenue?

Some comrades admitted that the contract system had given enterprises greater stamina and increased workers' income, but worried that this would reduce state revenue.

Let us first take a close look at Shoudu Steel. Revenue is delivered by Shoudu Steel to the state through three channels. The first channel is taxation (including product tax). In 1988, it handed over 279 million yuan, 3.03 times that in 1981 before the contract system was implemented. The second channel is profit delivery. In 1988, it handed over 621 million yuan, 1.64 times that in 1981. The third channel is the handing over of fees and taxes from profits retained by the factory. Between 1983 and 1988, a total of 635 million yuan were handed over. Revenue from all three channels totaled 1.111 billion yuan in 1988, which was 2.35 times that in 1981. Average annual increase for the 10-year period from

1978 to 1988 was 19.4 percent. According to statistics released by the State Statistical Bureau, state revenue increased at an average annual rate of 10.20 percent during this period. Hence, the rate of increase in revenue turned over by Shoudu Steel has been fast, not slow. In addition, between 1982 and 1988, state fixed assets acquired by the enterprise with retained profits amounted to 220 million yuan. Between 1982 and 1988, these four channels brought in a total of 7.712 billion yuan, or 93.2 percent of the profits and taxes realized by Shoudu Steel. These were Shoudu Steel's contributions to the state. The contributions made by an enterprise to the state cover four aspects, and we cannot judge revenue merely on the basis of profits handed over.

As noted in the report of investigation by the enterprise performance group of the State Enterprise Guidance Committee under the State Council and the Reform and Development Research Institute under Shoudu Steel, in 1987 and 1988 after the all-round implementation of the contract system, profits realized rose by 11.3 percent while sales tax increased by 17.2 percent annually. In the two years of contractual operation, profits and taxes realized exceeded the previous six years' total by 3.8 billion yuan, while profits realized exceeded the previous eight years' total by 2.6 billion yuan. Profits and taxes handed over to the state by industrial enterprises increased at an annual rate of 0.13 percent between 1979 and 1986, but at 11.03 percent in 1987 and 1988 after the implementation of the contract system. In 1988, profits and taxes turned over registered a 17.4 percent increase. The figure cited here does not even include the sums contributed by enterprises to energy and transportation funds. Why is there a drop in profits turned over by industrial enterprises (including income tax, regulatory tax, profits turned over, and the making up of deficits)? The reason is that the policy of replacing profit delivery by taxes has increased intermediate tax rates, with the result that profits turned over are gradually reduced to 21 percent of state revenue, while revenue in the form of intermediate tax and contribution to energy and transformation funds increased to 79 percent. It is partial and biased to ignore the increase in major sources of income and judge the effects of the contract system merely on the basis of profits turned over. In addition to reasons given above, profits turned over dropped also because the system of contracting by trades instituted in enterprises directly under the central authorities in 1987 and 1988 was not extended to the contractual operation of enterprises. Revenue nose-dived in Shanghai in 1987 and profits handed over by Tianjin enterprises dropped in 1988 because the enterprise contract system was not popularized in these two municipalities. If Shanghai and Tianjin were excluded, profits turned over by industrial enterprises covered by local budgets in 1987 and 1988 actually increased by 8.93 percent rather than 0.11 percent annually.

The continuous drop in profits turned over, including income tax and regulatory tax, did not begin after the implementation of the contract system. In the three years

between 1984 and 1986, when the second step of the replacement of profit delivery by taxes was implemented, profits turned over by enterprises plunged by 17.82 percent. In the course of implementing the second step of the replacement of profit delivery by taxes, the state secured over 50 percent of the net income of enterprises through ad valorem duties. It then took away more than half of the profits realized by enterprises through the levying of income tax, which was fixed at 55 percent, as well as regulatory tax. Out of profits retained, enterprises had to pay a 15 percent contribution to the energy and transformation fund (in 1989 a 10 percent contribution to the budgetary regulation fund was added) besides having to subscribe for state treasury bonds, major construction bonds, key enterprise bonds, and so on. According to a survey of 11 enterprises, including the Tianjin Bicycle Plant, as well as enterprises under the Ministry of Water Resources and Power Industry, about 90 percent of net income were levied by the state. In the Yanshan Petrochemical Company and the Jinshan Petrochemical General Plant, the figure was as high as 95 percent. Enterprises could only retain about 10 percent of their profits, out of which they had to pay price subsidies for nonstaple food, bonuses issued at pay days, medical fees, dormitory construction expenses and all the rest. What this really means is that expenses which should have been included as cost were paid out of the profits retained by enterprises. The second step of the replacement of profit delivery by taxes has therefore weakened the vitality of enterprises, dampened their enthusiasm, and made it difficult for them to carry out technical transformation. This has brought about a 22-month-long plunge in state revenue. We all know that it was precisely with a view to redeeming the situation that the State Council resolutely decided in May 1987 that the second step of the replacement of profit delivery by taxes be substituted by the enterprise contract system.

Under the present circumstances, if we practice "separate taxes and profits, after-tax contracting, and before-tax repayment of loans," we are in fact reviving the income tax system, the only difference being that the tax rate will be reduced from 55 percent to, say, 35 percent, 30 percent, or even 25 percent. In other words, this means the complete revival of the second step of the replacement of profit delivery by taxes, with three-tier levying according to prescribed rates, supplemented by higher circulation tax rates (lately the value added tax on tires was raised from 10 percent to 18 percent; the rates for fluorescent lamps and textile goods were also raised from 7 percent to 20 percent and from 18 percent to 23 percent respectively), and requiring enterprises to pay a 10 percent contribution to budgetary regulation funds and to subscribe for bonds. Enterprises are therefore levied approximately the same proportion as when the second step of the replacement of profit delivery by taxes was in force. As things stand in China, this is tantamount to doing away with the enterprise contract system and cannot arouse the enthusiasm of enterprises. Our enterprises are not only faced with the acute shortage of

energy, raw and semi-finished materials, means of transport, funds, and foreign exchange. They are also up against extreme difficulties, with products selling very poorly and not enough working capital. It is hard to say what will happen if the practice of separating taxes and profits is introduced now. The current financial difficulties are not brought about by the enterprise contract system. They have come about as a result of the self-expansion of the political structure, the swelling of investment, and inflation. Subsidies for prices, foreign trade and enterprise deficits are expenses increased in times of inflation to stabilize prices and exchange rates. This kind of expenditure accounts for about three-fifths of fiscal expenditures. At present, rather than increasing the tax burdens of enterprises, we should help them overcome their difficulties.

#### 4. Has the Contract System Encouraged, Even Brought About Inflation?

Some comrades held that the enterprise contract system and the system of financial contracting by local governments encouraged inflation and price hikes because the former required enterprises to go after maximum profits while the latter permitted the local authorities to mark up the price of products to increase the income of enterprises and financial departments. Some comrades even suspected that the "five major contract systems" (contracting by enterprises, financial contracting by local governments, contracting by trades, contracting for foreign trade and foreign exchange, and contracting output quotas to rural households) were the source of inflation, hinting that reform was the cause of inflation.

In capitalist society, enterprises are indeed the beneficiaries of inflation. In the socialist economy, however, particularly under the present system in China, enterprises are the victims of inflation. This is because Chinese enterprises do not have the power to determine the price of their products and are subject to the strict control of pricing departments. Since enterprises have no choice but buy raw and semi-finished materials, and the double-track price system is tolerated by the state, it is easy for the prices of raw and semi-finished materials to go up and stay high, but difficult to bring them down. In 1988, eight machine-building factories in Beijing paid out 41.56 million yuan more due to price hikes in raw and semi-finished materials and an additional 7.51 million yuan due to increases in the price of energy. They also paid out 15.18 million yuan more in fees and 1.86 million yuan more in other expenses. These factors combined to reduce profits by as much as 66.11 million yuan. Additional income secured by these factories from increases in the price of products amounted to 20.02 million yuan; from increases in output, 27.48 million yuan; from qualitative improvement and cuts in the consumption of raw materials, 13.62 million yuan; and from the development of new products, 5.64 million yuan. These factors combined to increase profits by 66.76 million yuan. Income from increases in the price of products only amounted to 30.27 percent of expenditure arising from increases in the price of raw and

semi-finished materials, energy and so on, or about 70 percent of the elimination of profit-reduction factors by enterprises.

Inflation reached its peak in 1987, particularly in 1988. If the system whereby everybody eats from the same big pot is still practiced, enterprises will turn over more if they make a profit and nothing if they make no profit. They will thrust themselves upon the state, waiting for subsidies when they are running at a loss. It is precisely because the contract system sets a quota for profits to be turned over to the state that enterprises are compelled to fight a life-or-death battle to eliminate factors for the reduction of profits and overfulfill their quotas if they want to benefit themselves and their staff and workers. After the upward readjustment of prices for raw and semi-finished materials in 1988, the local price bureaus allowed enterprises to make slight readjustments in the prices of their products. In 1989, the state urged that price increases be contained within the level of the previous year and succeeded in keeping the pricing of industrial goods in check. However, the price of raw and semi-finished materials continued to soar on account of the double-track price system. Thus, the extent of losses sustained by enterprises increased in the first half of 1989, with losses increasing by 1.22 times over the same period of 1988. According to state financial departments, benefits obtained from increases in the price of industrial products did not go to the state, and in order to put this income into the state coffers, the best way would be to restore income tax based on fixed tax rates. However, contrary to the hope of making gains from the sale of products at higher prices, enterprises suffered serious losses in 1988. The idea that income obtained from price hikes should go to the state is clearly out of keeping with the times.

The contract system needs to operate in a stable external environment, namely, good macroeconomic conditions. First, it needs stable prices for raw and semi-finished materials, energy and finished products, for only in this way can reasonable contract quotas be drawn up. Second, it needs stable financial and tax burdens, for only when "quotas are fixed at one end" can enterprises operate with a free hand. Neither of these two conditions have been met since 1987. The prices of raw and semi-finished materials skyrocketed, while the prices of manufactured products were kept under rigid control. The state financial departments introduced land tax, stamp duty, and budgetary regulation funds, one after another. In addition to the introduction of new items of taxation, tax rates were also raised. This means that the enterprise contract system was thrust into the violent storms of an adverse external environment right from the start. China's working class, including engineers and technicians, managers and entrepreneurs, loyally served the country and shared the nation's worries. It is for this reason and this reason alone that they persevered in the contract system and overcame difficulties to make new contributions to the country, succeeding in maintaining a relatively stable economic situation. Practice proves

that the contract system is the factor for the elimination and amelioration of inflation and price hikes, not the factor that has encouraged and brought about inflation.

#### 5. Has the Contract System Presented Obstacles to the Rational Distribution of Social Resources?

Some comrades worried that the contract system, which imposes strict quotas on enterprises, would present obstacles to the rational distribution of social resources, and affect the amalgamation of enterprises and the transfer of fixed assets. They thus considered the contract system to be desirable in terms of microeconomic benefits but not in terms of macroeconomic benefits.

Facts have proved that the contract system has accelerated the rational distribution of social resources. For instance, the eight machine-building factories in Beijing have developed rapidly and beefed up their strength since they began contractual operation, taking over five enterprises within two years, along with their 3,876 staff members and workers and fixed assets worth 62.16 million yuan (with a net value of 38 million yuan). The People's Machine-building General Plant in Beijing took over the No. 7 Lathe Factory in 1987. At the time of the takeover, the output value of this factory only amounted to 3.32 million yuan. One year afterward, the output value reached 25.791 million yuan, 7.77 times that at the time of the takeover. In 1987, the People's Machine-Building General Plant organized the Beijing Municipal Printing Equipment Joint Corporation, a multiprovincial and multitrade company which engages in scientific research, development, production, marketing, and services, with the No. 7 Lathe Factory at its head. This corporation rapidly has expanded in the short span of one year.

The contract system has promoted the amalgamation of enterprises and the development of enterprise groups. The reason is that in the course of contractual operation, a number of enterprises which enjoy favorable conditions are bound to emerge. With sufficient economic strength and favorable operational and technical conditions, they can amalgamate and bring improvements to enterprises that are performing poorly, thereby providing the prerequisite for the optimum distribution of social resources.

#### 6. Is the Contract System in Conflict With the Improvement of Economic Environment and the Straightening Out of Economic Order?

Some people wondered whether or not the contract system, which delegates responsibility, power and interests to enterprises, would prove counterproductive in the period of economic readjustment when the centralization of power and interests is stressed. They asked whether or not we should curtail the scale of technical transformation in contracting enterprises and hand over to the state financial departments the profits retained by these enterprises.

China has already carried out three economic readjustments aimed at curbing inflation: One in March 1950, one in the 1960's, and one in 1981. In 1981, the method of contracting output quotas to households was introduced as part of the economic structural reform to mobilize the peasants to develop production. In an effort to enlarge the decisionmaking power of enterprises, the contract system was tried out, and enterprises and staff and workers were mobilized to share the worries of the state by contracting for profit quotas. The system of financial contracting by local governments was introduced to arouse the enthusiasm of the localities, increase production, practice economy, and reduce financial deficits. The principle was to eliminate inflation through the division of power, responsibility, and interests so as to arouse the enthusiasm of the peasants, enterprises, staff and workers, and localities and increase production and revenue. This principle produced quick results and minimal sacrifice, and should be regarded as a successful readjustment. The 1989 readjustment should cater to the characteristics of the economic structural reform already underway. Hence the policy we are putting forward this time is to improve the economic environment, straighten out the economic order, and deepen the reforms. In deepening reforms, priority should of course be accorded to the reform of enterprises.

Initial success has been achieved since economic readjustment and the deepening of reforms began in September 1989. The escalation of retail prices has begun to slow down, the swelling of investment has begun to be contained, institutional purchases have begun to decrease, and inflation-proof deposits have initiated a recovery of currency. Artificial purchasing power and false prosperity have disappeared since last July, and a drop is seen in the volume of retail sales. Products like home electrical appliances, woolen fabrics, cotton fabrics, and cement have reported sluggish sales. A depression with the tightening of money supply has set in. It is unlikely that an economic crisis arising from overproduction will occur in socialist countries, but there may be panic-buying fueled by inflation, as well as a depression, during the period of tightened money supply. During this period of inflation and price hikes, enterprises suffer from the fact that increases in the price of products fail to catch up with increases in the price of raw and semi-finished materials. During this period of tightened money supply and market slump, they find themselves in a spot with cash flow problems due to sluggish sales and falling prices. We are all deeply aware of the financial difficulties confronting the state, yet it is the enterprises that are really in a tight spot, as the state's financial difficulties are mere reflections of the difficulties encountered by enterprises. At present, we must make full use of the superiority of the enterprise contract system to arouse the enthusiasm of enterprises. We must go a step further in upholding, perfecting, and developing the contract system, and regard this as an important measure for overcoming the current difficulties.

a. We must uphold and perfect the contract system in order to put people's minds at rest and encourage the

entrepreneurs and staff and workers to keep their minds on their operations. It is essential that responsible comrades of the State Council give their reassurance on the continuity of the contract system and the system of overall leadership by the factory director. This will reassure the factory directors and staff and workers and help them concentrate their attention once again on production and operation.

b. We must shift the focus of price stabilization to the prices of capital goods in order to improve the external operational environment of enterprises and help reduce their losses. The ex-factory price of coal is 40 yuan per ton in Shanxi, but coal is selling at 300-400 yuan per ton in the Jiangsu-Zhejiang area. The same is more or less true with the prices of other raw and semi-finished materials. By reducing the exorbitant profits of the middle-men, we can raise the ex-factory price of energy and raw and semi-finished materials while lowering the prime cost of the processing factories. What entrepreneurs demand is that the state provides direct supplies. This means that raw material producers should directly supply the needs of the processing factories at fixed quality and quantity, with prices to be negotiated between the parties concerned. This will put an end to "official profiteering" and benefit the people.

c. We must further develop the contract system. At present, our economy is too dependent on external trade. Exports account for 14 percent of the gross national product, while rolled steel, non-ferrous metals, chemical raw materials, and parts and components for automobiles, television sets, and refrigerators needed for our domestic industries are mostly imported. With the peak period in the repayment of foreign debts just round the corner, we will soon feel the pinch of foreign exchange. We should select about 100 large enterprises, including enterprises in the key departments of metallurgical, petrochemical, energy and transport industries, and enjoin them to speed up development, join efforts in tackling tasks, and strive to satisfy the needs for these raw and semi-finished materials and parts and components through self-reliance in the next few years. We should fully draw from the experience of South Korea, which has, through relying on a dozen or so large enterprises and giving them a free hand in development, turned from a country which had to import automobiles, television sets, rolled steel, and other products into a country that exports these in large quantities. These enterprises should be given decisionmaking power in respect of investment and foreign trade, as well as credit support.

Hence, upholding and perfecting the contract system is the point where economic readjustment and the deepening of reforms integrate. It is also a key measure for overcoming our economic difficulties.

#### 7. Is the Contract System a Transitional Measure?

Many comrades were certain that the contract system was a necessary measure at the present moment in time,

that it was the only measure left to us when no better alternative was available. However, they had not come to understand clearly that it was a measure for economic structural reform with far-reaching significance.

The practice of reform during the past 10 years shows that the contract system is not merely a measure for the tackling of difficulties immediately before us, but is the only way out for China's economic structural reform. The enterprise contract system, the system of contracting output quotas to households, and the open-door policy are the three pillars of socialism with Chinese characteristics.

Friedman said: Keynesianism of the West and socialism of the East have both failed. His followers believed that we must take the road of privatization and return to capitalism. From what I experienced before Liberation, bureaucrat-capitalism was moribund and was responsible for the downfall of the Chiang Kai-shek regime. Private capitalism, on the other hand, subjected the laboring people to ruthless exploitation. We cannot rely on private capitalism to build a rich and strong China with common prosperity.

However, the conventional mode of socialism practiced in the Soviet Union has indeed reached the end of the road. It is precisely for this reason that socialist countries have all begun their economic structural reforms. How should we carry out reform? We should explore. Truth comes from practice. After being put to tests for many years, the system of contracting output quotas to households created by Chinese peasants, together with the enterprise contract system jointly created by Chinese workers and entrepreneurs, have proved themselves to be successful explorative attempts.

We established the socialist public ownership system and adopted the traditional economic system of mandatory planning with unified command and unified accounting, which eventually developed into the practice of everybody eating from the same big pot. A unified pay scale was practiced across the country. As people doing more work do not necessarily get more pay, the system of distribution according to work is in fact abolished. In enterprises owned by the whole people, workers have no say in production and operation, the factory directors and workers have no decisionmaking power, and everything has to be done in accordance with the plans and orders of the higher authorities, with the result that no one is willing to assume responsibility. There is no way to arouse the enthusiasm of the enterprises, factory directors, staff members and workers, and enterprises have lost their vitality and vigor. The contract system does not seek to change the nature of the system of ownership by the whole people, but it seeks to improve the contents of this system. In other words, the state is the ultimate owner, while the power of operation, that is, the right of possession, right of use, right of sanction, and right of income, are transferred from the government organs to the hands of the factory directors and the entire body of staff and workers in a system of all-personnel

contract system. Staff members and workers, as part of the whole people, take out contracts for the operation of enterprises from the whole people and become the masters of enterprises. The interests of the state, the enterprise and the staff members and workers are combined in the distribution of earnings. After fulfilling the tax and profit quotas as well as the requirements stipulated in the state plans, the enterprise and staff and workers can keep the above-quota profits. In this way, the staff and workers have a centripetal and rallying force, and can truly play their role as masters of the house. Enterprises have become economic entities with the power to accumulate funds, make investments, and carry out transformation and expansion on their own. They are the active cells of the national economy. The contract system has brought into play the superiority of socialism. Shoudu Steel has achieved a profit rate on funds of 60.67 percent, which is higher than in capitalist countries. Its blast furnace utilization rate exceeds that of the Sumitomo Metal Industries, while its converter furnace utilization coefficient is higher than that of Shinnittetsu and praised by its peers in foreign countries as "the world's fastest converter furnace." The contract system can create and has created labor productivity and performance higher than those achieved in capitalist countries and has brought into play the superiority of the socialist public ownership system. On the basis of the contract system, we have developed enterprise amalgamation and enterprise groups, achieved the optimum organization of labor, and raised the level of enterprise management.

Thus, the contract system is by no means an emergency and transitional measure. Rather, it is a fundamental system for the correct handling of the relations between the state, the enterprise, and the staff and workers in socialist enterprises. Within 10 years of the institution of the contract system, advanced enterprises like Shoudu Steel, the No. 2 Automotive Works, the Panzhihua Iron and Steel Company, the Jilin Petrochemical Works, and the Jiamusi Paper Mill have emerged. If we persevere in the contract system, we will definitely be able to create economic miracles for socialism and fully bring into play the superiority of the socialist economy.

#### Economic Cooperation Meeting Held in Shandong

OW060602590 Beijing XINHUA Domestic Service  
in Chinese 1429 GMT 2 Jun 90

[By reporter Liu Weihua (0491 0251 5478)]

[Text] Jinan, 2 Jun (XINHUA)—With the development of economic and technical cooperation between the coastal and interior provinces and autonomous regions along the Huang He, a new economic situation is occurring, in which the eastern part is opening itself to the outside world, while the western part is being developed, with each complementing the other with their respective favorable conditions. This is what this reporter has learned from a third meeting of eight provinces and

autonomous regions along the Huang He on economic and technical cooperation. The meeting ended in Shandong Province on 1 June.

It is the common desire of the eight provinces and regions along the Huang He to make common development by using Shandong's favorable conditions of vast coastal open economic zones and those of the inland provinces and regions along the Huang He—rich resources. Since the establishment of the economic cooperation area along the Huang He in July 1988, the eight provinces and regions have agreed on 710 items of economic and technical cooperation, involving more than 1.5 billion yuan, with a total of 7,100 qualified personnel exchanged or trained. The coastal open economic zones in Shandong have become important windows for the inland provinces and regions along the Huang He. According to incomplete statistics, more than 20 categories of 300 over different products worth more than \$5 million were exported through Shandong Province in the past two years. The Yanzhou-Shijiu Railway, which links with the interior of the country, has become an important line of freight transport for provinces and regions along the Huang He. The newly developed port city of Rizhao serves as another window for the cooperation area. At the meeting on economic and technical cooperation, representatives from the eight provinces and regions along the Huang He discussed how to use the harbors of Shijiu and Songshan to further develop foreign trade.

Representatives held: To rationalize the economic structure of the economic cooperation area, the provinces and regions along the Huang He should place emphasis on the optimum organization of industries and the development of cooperation through a rational division of work and vigorously organize a number of large interprovincial and interregional enterprise groups turning out top-quality products.

More than 200 representatives from eight provinces and autonomous regions—Qinghai, Gansu, Ningxia, Inner Mongolia, Shaanxi, Shanxi, Henan, and Shandong—along the Huang He attended the meeting.

#### Technological Renovation Projects Receive Funds

OW2406215990 Beijing XINHUA in English  
1202 GMT 24 Jun 90

[Text] Beijing, June 24 (XINHUA)—China invested 12.4 billion yuan in 17,500 technological renovation projects in the first five months this year, according to the State Statistical Bureau.

The investment in technological renovation accounted for 27 percent of the total funds for the national capital construction.

The statistical bureau reported that during the current economic rectification drive, many enterprises have attached great importance to technological renovation despite the shortage of funds.

Since 1981, China has spent more than 460 billion yuan on overhaul of existing enterprises, 2.6 times that in the previous three decades, and completed 700,000 technological renovation projects.

The revamping efforts have resulted in 60 percent of the increased output value in recent years.

#### PROVINCIAL

##### Hebei Economic Figures Reported

SK2106063990 Shijiazhuang HEBEI RIBAO  
in Chinese 22 May 90 p 1

[Summary] From January to April, Hebei Province's investment in fixed assets totaled 1.079 billion yuan, a drop of 17.4 percent from the corresponding period last year; of which 522 million yuan went to local projects, a drop of 21.8 percent. Bank loans at the end of April totaled 52.955 billion yuan, an increase of 478 million yuan over the amount calculated at the beginning of the year. Of the total, 6.445 billion yuan were loans for investments in fixed assets, an increase of 1 million yuan. The province's per-capita productivity was 4,874 yuan from January to April, rising by 0.04 percent over the corresponding period last year. The cost of comparable industrial products showed an 8.13 percent increase over the corresponding period last year. The profit-tax rate of the income from sales of industrial enterprises was 10.6 percent, and the profit-tax rate of industrial funds was 10.3 percent, both lower than those of the corresponding period last year.

##### Readjustment of Product Mix Urged in Hubei

HK0806053490 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 3, 1990 pp 12-13

[Article by Zhang Puhua (1728 2528 5478), edited by Lu Fuming (7120 4569 6900): "Carefully Readjust the Product Mix To Overcome the Difficulties of the Weak Market"]

[Text]

I

Structural readjustment is a fundamental task of economic improvement and rectification. It includes the readjustment of the industrial structure, the organizational structure of enterprises, the product mix, and so on. Among these, the readjustments of the product mix has the pride of place in the structural readjustment of the industrial economy.

At present, the readjustment of the product mix is a necessary and urgent task. On the macroeconomic level, the state has announced its industrial policy shortly after the introduction of its policy of retrenchment, prompting and guiding the local industrial departments to grasp readjustment. The readjustment of the industrial structure has now become the prevalent environment and climate in the whole country. Localities and enterprises with insight, which took the lead in carrying

out readjustment early on, have already achieved initial results. Practice shows that in places where readjustment is carried out in earnest, industry will be able to suit the needs of the big environment and demonstrate greater competitiveness. Take the actual situation in the industrial economy of Xiantao City, Hubei Province, for instance. In our city, industrial products mainly comprise daily consumer goods. The amount of technology required is not large, the level of technology is not high, and assimilation is serious. There are large numbers of intermediate products and very few final products. In a weak market situation, industrial production is seen as poor in adaptability and weak in competitiveness. We have recently conducted a survey on the sales of 52 types of major industrial products. According to this survey, only four types of goods (farm chemicals, chemical fertilizers, bearings and malt), or 7.7 percent, managed to maintain the sales momentum; 22 types, or 42.3 percent, showed normal sales; while 26 types, accounting to half the total number of goods surveyed, were selling very poorly. This shows that in order to overcome the difficulty of the weak market, we must grasp the decisive factor, namely, the readjustment of the product mix. Furthermore, the readjustment of the product mix is also the key link in improving the production and operation of enterprises and achieving better economic results.

## II

The guiding ideology for the readjustment of the product mix in our city is to base our measures on the state's industrial policy, work toward the objective of improving the economic performance of enterprises, take multi-layer market needs as our guidance, carry out various forms of readjustment in the light of the actual situation, and do as much as possible toward improving the marketability of products. What is meant by meeting multi-layer market needs is that we should renew and upgrade products through readjustment and open up new sales outlets. We must not merely go after high-grade products and overlook the need to produce medium- and low-grade products. This is because market needs are multi-layered. At present, consumer demands in the vast countryside still concentrate on medium- and low-grade products in the main. The idea of carrying out various forms of readjustment in the light of the actual situation has two levels of meaning: First, we should work according to local conditions and within our capability, and guard against the tendency to rush headlong into mass action. Second, we should carry out readjustment with a definite object in view, stress actual results and not stick to one pattern. We may try to initiate the readjustment of the product mix through readjustment of the sales market, open up new sales outlets through the readjustment of the product mix, or strive to enlarge the market coverage and deepen the readjustment of the product mix through readjustment of sales policies.

In accordance with the state's industrial policy and in the light of the actual industrial situation in our city, the directions we have charted for the readjustment of

product mix in our city is as follows: 1) Readjustment in the direction of giving support to agriculture. As the foundation of the national economy, agriculture should be accorded importance in the economic readjustment. The development of aid-agriculture products that sell well no doubt have a large sales market. All enterprises that have the ability to produce aid-agriculture products should develop the production of these products. 2) Readjustment in the direction of earning foreign exchange through exports. At present, the domestic market is weak, but the international market is not. Expanding exports is an effective way not only for overcoming the difficulty of the weak market but also for improving the quality of enterprises. 3) Readjustment in the direction of serving large-scale urban industries. Local industries and township industries should develop products that serve the needs of large-scale urban industries. By towing the "small boats" onto the "big ships," all becomes invigorated. 4) Readjustment in the direction of energy conservation. It is unlikely that the situation where energy construction lags behind the development of the processing industry will change in the near future. Developing a number of products that consume little energy is not only in line with the state's industrial policy and our actual situation but may enable us to benefit from relevant preferential policies. 5) Readjustment in the direction of producing goods that are "in short supply, inexpensive to produce and fast-selling." Confronted with a shortage of funds, energy and raw and semi-finished materials, delay and repetition should be avoided at all costs in the readjustment of product mix in enterprises. The readjustment should be aimed at goods "in short supply, inexpensive to produce and fast-selling" in order that enterprises can promptly make a turn for the better.

## III

On the methodology of readjusting the product mix, our basic approach is as follows: 1) Marketing shift. This means shifting the focus of attention from domestic to overseas markets, from township to rural markets, from coastal to interior markets, and from markets in economically developed areas to markets in poverty-stricken areas. Through marketing shift, it will be possible to bring about changes in product mix, technological processes and the lines of production. 2) Two-way extension. This means that on the basis of existing products, efforts should be made to develop the production of raw and auxiliary products on the one hand and improve the processing industry on the other. This will increase the "shock-resistance" of enterprises as well as the added value of products, promote the upgrading of products, increase the variety of products, and enhance the adaptability of markets. 3) Changing the shapes and sizes. This means improving and changing the outward appearance of products, including the specification, style, pattern and color, of existing products so as to give them a new feel, touch and appeal. The market coverage is enlarged through increasing the consumption adaptability of products. 4) Derivative

fission. This means carrying out remolding and innovation on the basis of existing fast-selling products and famous-brand, high-quality and special products so as to derive products of different varieties, usage and style, and form "product series" and "product families." 5) Replacement of older generations of products with new ones. This means changing existing products along with changes in market situations and consumption trends, dishing up new forms and always keeping in step with new turns in consumer mentality. 6) Strengthening of capability. This means continuously increasing the productive capacity of enterprises producing marketable goods through reform, reorganization, transformation and redeployment of production factors so as to fully bring their marketability into play.

In order to promote the readjustment of product mix, we must adopt the policy of encouragement and create a more flexible environment for enterprises to readjust their product mix. Our method is as follows: On the question of funds, technical development funds drawn before tax and production reserve funds drawn after tax may be expended in full on the readjustment of product mix. Specialized banks may assign a given percentage of their existing and additional credit funds as preferential loans to enterprises that have made an early start, acted swiftly and achieved good results in the readjustment of product mix. On the question of taxation, when an enterprise has developed a new product that fills the gap in the province, the tax department at the corresponding level may, in accordance with relevant stipulations of the state, take the initiative to help that enterprise apply and press for the reduction or remission of tax or accord that particular product the special treatment of delayed tax payment. When an enterprise has developed a new product that fills the gap in the city, the tax department at the corresponding level may also help that enterprise apply for tax reduction or remission from the tax department at the higher level or request that the product be given the special treatment of delayed tax payment. When an enterprise has done an excellent job in the readjustment of product mix, the tax department at the corresponding level may offer favorable treatment or special consideration provided that state taxation policies are not violated. On the question of material supply, the city's planning, material, finance and trade departments and industrial bureaus should do their best to supply fuel and "three types of materials" needed for the readjustment of product mix on a selective basis with the least delay or help coordinate and regulate such supplies. On the question of issuing licences, permits, production certificates and trademark registration, industrial and commercial departments and competent industrial bureaus should try in every possible way to give the green light to the readjustment of product mix.

The readjustment of product mix is not an isolated task. In order to achieve the effect of improving the quality of enterprises, increasing their adaptability and the building up the overall strength of the industrial economy, we must pay attention to grasping the following five combinations in the readjustment of product mix: 1) The combination of the

readjustment of product mix with information work. Departments in charge of various trades, economic committees of various township offices, and various enterprises should be urged to establish information organs and step up the building of information networks, and draw up procedures for the collection, compilation and feedback of market information, technological information and other types of information. In this way, the readjustment of product mix can be carried out under the guidance of information, and blind actions can be avoided. 2) The combination of the readjustment of product mix with technological advancement. Enterprises should be urged to grasp on-the-job training, technical training, emulation and petty reforms. At the same time, new technologies, technological processes and achievements should be adopted wherever possible in order to carry out the readjustment of product mix on the basis of technological advancement. Every effort should be made to increase the technological contents of products, enhance the role played by science and technology in additional achievements, shorten the cycle of the readjustment of product mix, and lower the cost of products. 3) The combination of the readjustment of product mix with the strengthening of enterprise management. Enterprises and competent departments should be urged to further grasp the rapid turnover of funds, the achievement of management targets and the improvement of management, and continuously raise the level of management. 4) The combination of the readjustment of product mix with marketing. Enterprises and other departments concerned should be urged to beef up their marketing strength, perfect the sales contract system and improve the sales policy. 5) The combination of the readjustment of product mix with the reorganization and amalgamation of enterprises. Competent industrial departments should seize the opportunity of economic readjustment to speed up the pace of enterprise reorganization and amalgamation. The readjustment of product mix should be combined with the optimum organization of production factors to increase the productive capacity.

#### Conference on Payment Defaults Held in Liaoning

SK1006124590 Shenyang Liaoning Provincial Service  
in Mandarin 2200 GMT 24 May 90

[Text] The provincial telephone conference on the work of clearing up payments in default for construction projects was held in Shenyang on the evening of 24 May. Vice Governor Zhu Jiazheng attended and addressed the conference. Leaders of Fushun, Shenyang, and Benxi Cities respectively introduced their experiences and results in clearing up payments in default for construction projects during the previous stage.

In his speech, Zhu Jiazheng pointed out: Over the past few years, because of the excessively rapid economic growth and the excessive distribution of national income, the default of payments for construction projects which some capital construction units owed construction enterprises has greatly increased. In addition, the phenomenon of getting into debt while asking for more loans has become very serious. According to statistics, by the end of March, loans and

payments in default for construction projects of construction enterprises which had opened an account in the provincial construction bank totalled 2.54 billion yuan. Of this, the default of payments for construction projects and funds for buying houses reached 1.44 billion yuan, accounting for more than 10 percent of the default in payments for construction projects of construction enterprises throughout the country.

Vice Governor Zhu Jiazheng also pointed out: The reason for the increase in default of payments was mainly caused by the fact that the capital construction units outstripped their plans while making arrangements for construction projects and that after starting the projects they ran out of funds which led to their default in payments for construction projects. In addition, some construction units did not repay the loans even when they had money. Instead, they used the money to continuously arrange for new projects. They developed themselves by running into debt.

Zhu Jiazheng also emphatically pointed out: In order to end this situation, the provincial government has called on governments at all levels to consider clearing up payments in default for construction as an important aspect in cleaning up the debt chains. All city governments should take the lead in repaying the default of payments in construction projects which the city financial departments had arranged with funds raised by themselves. All departments in charge of comprehensive work should take the initiative in cooperating with the city governments. Banks should resolutely overcome the wait-and-see attitude and the mentality of selfish departmentalism such as exchange of equivalents, conscientiously implement the principle of the State Council on repaying debts before carrying out construction, and help construction units to formulate plans to repay debts. At the same time, efforts should be made to clean up the newly-initiated projects. Construction units which cannot guarantee funds for the projects must raise funds sufficiently before carrying out the projects. Otherwise, the construction of their projects must be suspended or delayed. In addition, it is necessary to prevent construction enterprises from contracting projects with funds borrowed from other people. When discovered, the bank will withdraw the loans and some circulating funds.

#### Shanghai Tests Tax, Loan, Contract Reforms

90CE0132A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 3, 23 Mar 90 pp 51-52

[Article by Jiang Tiezheng (5592 6993 2691) and Zhu Zeke (4281 3419 4430) of the Shanghai Municipal Economic Structure Reform Commission: "Shanghai Carries Out Experiments at Selected Points in 'Tax, Loan, Contract' Reforms"]

[Text]

I

In 1988 Shanghai Municipality selected one enterprise-type company and four industrial enterprises as experimental

points for carrying out a complete set of "tax, loan, contract" reforms. They were: the Essence and Perfume Company (containing seven independent-accounting industrial enterprises), the Sifang Boiler Plant, the Zhengtai Rubber Plant, the Analytical Instrument Plant, and the Diamond Tool Plant.

The main parts of the experiments were: 1) Lowering the income tax rate from 55 percent to 35 percent. 2) Abolishing the regulatory tax. 3) Changing pretax loan repayment to post-tax loan repayment. 4) Using post-tax profits for state-owned asset occupancy fees. The occupancy fee was computed and levied in the following way: The 1987 circulating funds not yet allocated by the state were multiplied by 5.06 percent (equal to the bank loan interest rate) plus the fixed asset net value multiplied by 9.58 percent (equal to the bank loan interest rate) to get the total sum. Also, a contract for a yearly average increase of two to five percent was put into effect. 5) Out of an enterprise's retained profit, a loan-repayment fund was set up. Its amount was 70 percent of the production development fund, and the loan-repayment fund was exempt from payment into the energy and communications fund. 6) The total amount of an enterprise's wages, like that of a top-side contract enterprise, is in line with an economic results-linked float. 7) The proportion of an enterprise's retained profit used for accumulation and consumption, within the realized profit base, is in line with the originally determined proportion for the five funds, and the over-base profits are in line with the proportion financially appraised and decided. On the basis of an enterprise's exercise of their free will, the municipal Finance Bureau along with the bureau in charge of the enterprise approved and decided to pay the state-owned asset occupancy fee, one account at a time, after which a five-year contract was signed.

After one year's experiments at the selected points, the results showed that although the reforms produced a structural change in the state's income, the total amount remained basically stable. In 1988, as compared with 1987, the five enterprises paid 18.92 million yuan less in income tax and were exempt from 22.86 million yuan in regulatory tax; adding the two taxes together, the state was paid 41.78 million yuan less in income taxes. It was paid 22.14 million yuan more in the circulation tax and 1.88 million yuan more in the energy and communications fund; adding the two together, the state got 24.02 million yuan more. In addition, the enterprises paid the state 12.86 million yuan in state-owned asset occupancy fees. Totaling the above three items, the state only received 4.9 million yuan less, a reduction of only 2.4 percent. From the top-side enterprises under all-people ownership, in 1988 the state's total income was four percent less than in 1987. Therefore, the complete set of "tax, loan, contract" reforms stabilized the state's financial revenue, and also made its structure beneficial to enhancing macroeconomic control. What was even more important was that it further aroused the enterprises' enthusiasm for dual increases and dual savings.

Moreover, the net retained profit of the five enterprises in 1988, as compared to that of 1987, increased 11.65 million yuan, and 4.28 million yuan more in loan repayment was made. In this way the value of the state-owned assets was increased, and also the enterprises' capability for self-transformation as enhanced, adding reserve strength for the enterprises' technical progress.

## II

Looking at the situation with respect to the complete set of "tax, loan, contract" reforms made by the five enterprises, it certainly showed that this comprehensive experiment had an effect in the following four aspects:

—It standardized the tax system and established the legality of the state's tax system. Before the experiment, the income tax rate of the five enterprises in name was 55 percent, but in reality there was a rate for each enterprise and it was not at all standardized. After the experiment the rate was 35 percent. In 1988 the total profit of the five experimental enterprises fell eight percent as compared with that of 1987, but taxable profits rose 12.1 percent, thereby insuring the steady rise of the state's tax revenue sources.

—With regard to the tax system, for the large- and medium-sized enterprises under all-people ownership, a relatively equal competitive environment with enterprises under other ownerships was created. Before the experiments at the selected points, in accordance with the average calculation for the five enterprises, on every 100 yuan of taxable profit the net profit retained by the enterprises was only 23 yuan, of which less than 16 yuan could be used for production development, but loans could be repaid before taxes were paid. After the reform, the enterprises' retained 55 of every 100 yuan as profit, of which 38 yuan could be used for production development, close to the amount of enterprises under other ownerships that repaid loans after paying taxes.

—By changing loan repayment before taxes to loan repayment after taxes, the enterprises were given the initiative over their own investments, the enterprises' responsibility for investment risk was made heavier, the optimization of the investment structure was promoted, and investment efficiency and results were improved—all of which were advantageous for reducing the demand for investment and for mitigating the contradiction between supply and demand. For example, the Analytical Instrument Plant once used 60,000 yuan to buy two numerical controlled machine tools, which, after a trial run, were consigned to limbo and no one bore economic responsibility for this loss. The plant now, by all ways and means, uses the investment system to insure that more things get done for less money. It has ruled that for the purchasing of equipment worth less than 50,000 yuan, there must first be a trial run by the Equipment Section and then a reexamination by the Chief Engineer's Office. After regular meetings on the equipment

convened by the plant director effects a comprehensive balance with the rear area, the equipment can be put in the plan. For equipment worth 50,000 yuan and more, there needs to be submitted an economic and technological feasibility report that clearly indicates the investment results and period of recovery. Finally, after demonstration checks by experts, the plant director examines and approves the purchase. Last year the plant cut its 950,000-yuan investment plan to a 300,000-yuan investment plan.

—Putting into effect post-tax asset occupancy fee contracts smooths out the dual functions of the state as asset owner and social manager, and promotes the establishment of a state-owned asset management system. It also gives the enterprises' contract administration clear administrative targets, arousing the enterprises' enthusiasm for increasing output and making savings, for increasing income and cutting expenses. For example, after the Sifang Boiler Plant became an experimental point, its 1988 profit was 1 million yuan more than in 1987, and its post-tax loan repayment was 3.5 million yuan, thereby greatly accelerating the enterprise's technological progress. This year for the first time the plant provided the international market \$5 million in value, and had high-quality products—oilfield gas injection boilers—of the international advanced level of the eighties.

## III

Looking at the circumstances at the five enterprise experimental points, we see that the following problems need to be solved.

1. With regard to an enterprise's profits after income tax, the state collects from it money for the energy and communications fund and the budget regulatory fund; also, in its status as an asset owner, the state participates in the drawing of extra profits. This is a prominent contradiction that blocks the divided flow of taxes and profits, and it must be resolved. I think that the energy and communications fund and the budget regulatory fund should be considered for income tax, and that the state-owned asset management departments should participate in the distribution of the enterprise's profits after tax, because the state's tax revenue and the state-owned asset income are financial revenues of two different natures, and the objects of their collection must be strictly differentiated.

2. We must get a tight grip on the state-owned asset management departments, make an inventory and check of all state-owned assets in the experimental point enterprises, make a social assessment of them, and correctly calculate the drawing of profits after tax.

3. In repaying loans on fixed assets, we should adopt the method of "reaching the position in one step," that is, the enterprises, without exception, should make loan repayments after taxes, because repaying loans before taxes weakens the tax system, expands the scope of fixed asset investment, and is detrimental to the improvement and rectification and the deepening of reform.

4. Solve the problem of how the state-owned asset manager is to take part in the enterprise's distribution of profit after tax.

In brief, it is difficult now, with the method of scattered experimental points, to fully display the effects and results of the complete set of "tax, loan, contract" reforms, so that the reforms can be compared. We should select one or two industries, and concentrate the experimental points there, in order to obtain an overall, correct understanding.

## FINANCE, BANKING

### 43 Billion Yuan Stock Issue Planned in 1990

HK0406153390 Beijing CEI Database in English  
4 Jun 90

[Text] Shanghai (CEI)—China has planned to issue stocks worth 43 billion yuan, including 28.5 billion yuan worth of bonds put forth by the state, in 1990.

Addressing an international seminar on stock market just concluded here, Jin Jiandong, a high-ranking official from the People's Bank of China (PBC), said that PBC will take measures to improve administration of the country's stock market.

Jin said that all bonds issued by the state and enterprises before 1989 will be allowed to be traded on the market and more bond exchange centers will be established in cities. Meanwhile, the official added that experiment in open stock trading will be conducted in Shanghai and Shenzhen.

More companies specialized in issuing and trading stocks will be set up though there are 34 such firms authorized by PBC to deal with the business, Jin said.

According to the official, nearly 400 trust and investment companies had been empowered to trade stocks with foreigners by the end of 1989.

More trust and investment companies will be approved to engage in the business.

All the companies dealing with stocks will be encouraged to open offices in economically-advanced cities with a large stock transaction volume, Jin said, adding that a nationwide information system will be set up in this field.

A number of laws and regulations will be mapped out to govern the issuance and trading of stocks while supervision and administration will be strengthened, the official said.

According to sources here, China had issued 144.9 billion yuan worth of stocks by the end of 1989. Of the total, state-issued bonds accounted for 101.5 billion yuan, financial bonds, 21.1 billion yuan and bonds issued by enterprises, 17.5 billion yuan. A total of 4.6 billion yuan worth of bonds have been put into the stock market so far, the sources said.

## MINERAL RESOURCES

### Ways To Accelerate Gold Production

HK0806141190 Beijing RENMIN RIBAO in Chinese  
22 May 90 p 5

[Article by staff reporter Zhang Xieyang (1728 3610 7122): "Do Not Miss the Good Opportunity in Gold Production"]

[Text] In recent years, China's gold production has developed markedly, increasing at an average annual rate of 10.3 percent progressively. The nation's gold output rose by 170 percent last year over 1979 and by 15 percent over 1988, which represents the largest increase in the past 10 years. The gold production still maintains its good momentum this year, with the state plan overfulfilled month by month in the first quarter or an increase of 26.6 percent over the same period last year. The number of counties producing over 10,000 liang of gold has increased from one to 29 and there are 43 gold mines producing over 10,000 liang.

Over the past 10 years, the state investment in gold industry has increased again and again. Last year, while vigorously reducing the scope of investment in fixed assets by the society as a whole, the state, instead of reducing its investment in gold industry, increased it by 10 percent over the previous year; this year, the investment has again been increased by as much as 100 million yuan.

It can be said, therefore, that despite considerable growth in gold production in recent years, there is still quite a big gap when compared with the state investment and projected speed.

How should we change this situation and further accelerate the growth in gold production?

First, it is necessary to do a good job of improvement and rectification. At present, the gold production order is very chaotic in some places. Although the State Council's document on strictly banning individual gold mining and on protecting gold and other special mines, it has not been heeded in many localities. Gold smuggling and speculation activities are still quite rampant in some places. Indiscriminate mining and digging and destruction of state resources still happen from time to time.

The key to rectifying gold production lies in governments at all levels. The governments at the prefectural (city) and county levels, in particular, should place the state interest in the first place, take the overall interest into consideration, heighten the sense of discipline, and resolutely ban individual gold mining, including those mining gold individually in the name of the collectives. The public security, taxation, industrial and commerce, banking, geological and mineral resources, and gold departments in various localities should work in close coordination and use administrative, legal, and economic means to crack down hard on the illegal activities of seizing gold mines and destroying natural resources.

In rectifying gold production order, it is necessary to uphold the principle of rational exploitation and strengthen centralized and unified management in order to realize unified planning and rational deployment, appropriately step up exploitation, and encourage a suitable scale of operation. In the future, we should take old mines and bases as the basis, gradually expand them from east to west and from north to south, and make strategic deployment in a planned way so as to achieve gradual exploitation from small areas to large tracts of land. Key gold-production provinces and mines should be supported and management should be strengthened. Particular attention should be paid to grasping well the construction of the existing four gold production bases. Serious efforts should be made not to hastily develop new areas the resources of which we do not have a clear idea and which have poor external conditions for construction, as well as projects about which we do not have the necessary production technique.

An important problem demanding prompt attention at present is the situation of geological prospecting lagging behind production and construction. In recent years, due to insufficient prospecting of reserves, we have been forced to conduct gold mining construction in advance of prospecting. In the existing producing mines, the number of mines facing resources crises and closure has constantly increased. According to incomplete statistics, the resources of over 60 mines are in a critical situation. Therefore, it is absolutely necessary to put geological prospecting in an important position, strengthen scientific research on basic geology, look for new mining areas, break new grounds, and quicken the pace of finding gold mines. We should rely on professional geological teams to find mines, step up mine prospecting by localities and mines, and encourage the masses to report mines. By combining the three sectors, we can develop gold geological work.

The foundation of China's gold industry is relatively poor. We already have some large and medium-sized mining enterprises. Taken as a whole, however, they are marked by poor quality, extensive management, and low efficiency. Compared with the advanced level, there are large gaps in terms of labor productivity, utility rate of resources, cost, and consumption. The capability of new gold mines to reach expected production capacity is also

very poor. According to analyses by relevant departments, about 50 percent of the production capacity of production mines in the entire gold industry has not been brought into full play. If we make great efforts to step up management and reduce the gap, it is entirely possible to turn out tens of thousands of more taels of gold a year.

## INDUSTRY

### Key Enterprises Register Increases in Production

HK0406091290 Beijing RENMIN RIBAO in Chinese  
14 May 90 p 1

[Report by staff reporter Wang Gengnan (3769 1649 0589) and JINRONG SHIBAO reporter Zhang Jidong (1728 4949 2639): "Industrial Enterprises Registered Better Production in the First Quarter of This Year Than in the Same Period of Last Year"]

[Text] The reporters learned from the State Council's Production Commission today that 234 "double guarantee" [guarantee for capital and raw materials] enterprises in the country registered increases in production during the first quarter of this year thanks to government active support and their efforts in overcoming serious difficulties. Their fulfilment of main production targets set by the State Council was better than last year.

In the first quarter of this year, "double guarantee" enterprises in the country produced 33.08 million tons of petroleum, an increase of 0.5 percent over the same period of last year; generated 98.4 billion kilowatt-hours of electricity, an increase of seven percent; produced 10.68 million tons of steel and iron, an increase of 9.3 percent; 3.4 million tons of rolled steel, an increase of 9.7 percent; 340,000 tons of nonferrous metals, an increase of 13 percent; 810,000 tons of chemical fertilizers, an increase of 5.7 percent; and 640,000 tons of soda ash, an increase of 4.7 percent.

These 234 "double guarantee" enterprises involve nine trades such as coal, electric power, petroleum, steel, nonferrous metals, industrial chemicals, petrochemical, textile, and electrical machinery. Their production of raw coal, electric power, crude oil, steel, nonferrous metals, chemical fertilizers, newsprints, power generating equipment, and automobiles accounts for over 70 percent of the country's total. These enterprises' planned industrial output value for this year is 192.6 billion yuan, 46 percent of the planned industrial output value of the country's large and medium-sized enterprises. They have planned to deliver profits and taxes totaling 38.5 billion yuan to the state, 35.2 percent of the profits and taxes to be delivered by the country's budgetary industrial enterprises. These "double guarantee" enterprises undertake the fulfilment of a large percentage of state mandatory plans, produce good economic results, register high foreign exchange earnings, and have a major impact on the

## ECONOMIC

national economy and the people's lives. "Double guarantee" means guaranteeing the supply of capital and raw materials for enterprises by administrative and economic means.

Shi Wanpeng, director of the Production Arrangement Bureau under the State Planning Commission, told these reporters that when the state provides the main production conditions for "double guarantee" enterprises, this does not mean that localities have lighter responsibilities for these enterprises. Governments at all levels and the relevant departments must strengthen their leadership over these enterprises and help them solve their problems in production. The state forbids the practice of retaining some of the energy, raw materials, capital, and transportation facilities it allocates for "double guarantee" enterprises. These enterprises are required to fully tap their potential, proceed with their production in safety, and ensure the delivery of their products, profits, and taxes to the state.

### Anhui Tackles Slow Industrial Growth Problem

OW2806065490 Hefei ANHUI RIBAO in Chinese  
10 Jun 90 p 1

[Excerpts] How to raise efficiency, halt declining industrial growth, and solve the problem of a slow industrial upturn? While doing their routine work during an inspection tour in Wuhu, Governor Fu Xishou and Vice Governors Shao Ming and Long Nian emphatically pointed out: The provincial government has decided to selectively help enterprises with "marketable products, good economic results, production potential, guaranteed raw and semifinished materials, and good management" by providing assistance in production, funds, and raw and semifinished materials. The purpose of the help is to ensure that input will generate returns quickly, and to boost economic development throughout the province by making this a starting point.

Because of a slumping market and a serious fund shortage, in the first five months of this year, Wuhu City's total industrial output value, sales volume, economic results, and revenues all declined in varying degrees. Despite efforts by the city party committee and government, the situation is still very grave. To help the city's industrial enterprises solve the problem and find ways to free themselves from the predicament, Fu Xishou, Shao Ming, and Long Nian led responsible members of the provincial planning commission, the economic commission, the commission of economic relations and foreign trade, the finance department, the textile department, the machine-building department, the taxation bureau, the general office of the provincial government, the people's bank, the industrial and commercial bank, and the central bank of Wuhu City between 4 and 6 June in order to do their work on the spot. [passage omitted]

After three days of inspection during which they heard many reports, Governor Fu Xishou and his party noted that during the past 10 years of reform and opening to

the outside world, a number of enterprises employing advanced equipment and technology have been built in this city. They should be helped because they have a considerable potential for increasing production.

Governor Fu Xishou stressed that to maintain proper economic growth, the key lies in rectifying work relations with other areas according to the central policies. The current slumping market is the result of structural change. Now is the best time to readjust the mix of products. Under these circumstances, we should help enterprises with marketable products and good economic efficiency, because they will advance quickly as soon as we give them some assistance. We should give them a chance to increase their efficiency. Therefore, we should aid enterprises on a selective basis. [passage omitted]

During their stay in Wuhu City, Governor Fu Xishou, Vice Governors Shao Ming and Long Nian, as well as the responsible persons of the relevant provincial departments, solved many urgent problems for enterprises on the spot, thereby greatly inspiring them.

### High-Technology Zone Developed in Guangdong City

OW1806102390 Beijing XINHUA in English  
0948 GMT 18 Jun 90

[Text] Guangzhou, June 18 (XINHUA)—The construction of a hi-tech industrial zone is progressing rapidly in Zhongshan City in south China's Guangdong Province.

The "Zhongshan Torch High-Tech Industrial Zone," covering an area of 66.6 hectares, is jointly run by the State Science and Technology Commission, Guangdong Province and Zhongshan City. Under an agreement signed in March this year, the zone is under direct administration of the State Science and Technology Commission.

The zone, located near Zhongshan Port, has good transport links with Guangzhou, capital of Guangdong Province, and Hong Kong and Macao.

The zone will be a combined center for the production, import and export of hi-tech products by using Chinese scientific achievements. Emphasis will be put on joint ventures in electronic information systems, new materials, electric machinery, new energy, and other energy-saving high technologies.

Enterprises in the zone enjoy preferential treatment. Firms from Hong Kong and Macao have already begun building electronic and new energy projects.

Infrastructure, including power, water, and raw materials supply systems, are already in place.

Special service departments have been established for approval and customs procedures.

Zhongshan City now has more than 4,000 enterprises in 64 industries producing more than 4,000 products.

### **Yunnan Industrial Production Increases**

*HK1306093190 Kunming Yunnan Provincial Service in Mandarin 1000 GMT 12 Jun 90*

[Text] After experiencing a negative increase in the first quarter of this year, Yunnan's industrial production has been gradually recovering.

By the end of May, output value of industrial enterprises listed in Yunnan's provincial budget had reached 2.7 billion yuan while industrial product sales volume had reached 4.14 billion yuan, representing a 5.2 percent increase and a 4.2 percent increase respectively over the corresponding period of last year.

However, industrial production is still being plagued by poor economic results.

In view of this situation, the Yunnan Provincial Economic Work Commission demanded that industrial enterprises make greater efforts to promote product marketing with a view to substantially increasing production and marketing of readily marketable industrial products.

The commission also demanded that redoubled efforts be made to strengthen internal management of industrial enterprises, increase production of coal and chemical fertilizer in the third quarter of this year when electricity supply is sufficient in the province, and boost production and marketing of energy-consuming industrial products.

## **SMALL-SCALE ENTERPRISES**

### **Role of Township Enterprises Reviewed**

*HK0506095690 Beijing RENMIN RIBAO in Chinese 14 May 90 p 6*

[Article by Zhao Cheng (6392 6134): "Have a Correct Understanding of the Important Role of Rural Enterprises"]

[Text] A correct understanding of the important role of township enterprises will be of great significance to the normal development of township enterprises in the course of improvement, rectification, and deepened reform.

Viewed from the situation of Langfang City, the development of township enterprises has far exceeded the handicraft-style small-scale commodity production, giving rise to a number of large enterprises. Equipped with advanced technological equipment, some enterprises have turned out a number of technological achievements winning prizes at home and abroad and developed a considerable number of high-tech products. Some have flowed to the country's market while others are promoted abroad, increasing the capacity of earning

foreign exchange. The normal development of township enterprises will play a decisive role in the city's economic development and social stability.

First, township enterprises have become the mainstay of the city's economy and revenue. In 1989, the total output value of township enterprises accounted for 43.3 percent of total product of society, 65.9 percent of total industrial and agricultural output value, and 78.1 percent of the total industrial output value. Of the city's revenue totaling 350 million yuan last year, 46.4 percent came from township enterprises. The average per capita income of the city's peasants reached 729 yuan and most of this amount came from township enterprises. Of the city's 1.3 million rural labor force, over 50 percent are employed by the township enterprises. All this shows that a decline in township enterprises will lead to a decrease in the city's revenue and weakening of the government functions in carrying out economic readjustment and social management. Moreover, incomes of the peasants will drop, hundreds of thousands of rural labor working in township enterprises will produce a great impact on the rural contracted responsibility system with payment linked to output, and effective supply by the township enterprises will decrease sharply, which is apparently unfavorable to the gradual elimination of inflation.

Second, township enterprises are the reliable backing for the sustained development of agriculture. To strengthen the foundation of agriculture and ensure its long-term development, it is necessary to maintain a coordinated development of the rural economy. Practice has proven that the growth of township enterprises and agricultural development are interdependent. Agricultural development has nurtured township enterprises, and in turn, the development of township enterprises has vigorously supported agriculture. Since 1984 the city's township enterprises have invested a total of 400 million yuan in agriculture, 5.3 times more than the state's input in agriculture during the same period. Township enterprises constitute the main source of input in agriculture. Moreover, sales of farm produce turned out by township enterprises have increased the value of the produce as well as opened an extensive production field for agriculture. The support offered by township enterprises to the development of rural industry has directly and effectively improved the conditions for agricultural production. As most of the workers of township enterprises are engaged in both industry and agriculture, they can obtain more market information from their extensive contacts in township enterprises to offer grounds for readjustment of agricultural production setup and promote agricultural production in breadth and depth. From a long-term point of view, it will be rather difficult to realize agricultural modernization without township enterprises and by merely relying on agricultural accumulation.

Third, the development of township enterprises constitutes an important component part of the industrial development road with Chinese characteristics. Viewed

from the situation of Langfang City, the sustained development of township enterprises has created a large number of industrial zones backed by small towns. An industrial structure centered on urban areas and with towns as its network is taking shape. This structure has alleviated the pressure on cities, offered a vast field for industrial development, and expanded the scope for a large number of rural surplus labor to gradually transfer to the nonagricultural industries. Lastly, we should be aware that township enterprises constitute an essential force promoting spiritual civilization in the rural areas. The building of spiritual civilization requires vigorous ideological and political work, and depends on the continuous development of a socialist commodity economy. As township enterprises constitute an important component part of a socialist commodity economy, their development can demonstrate the superiority of the socialist system, increase people's confidence in socialism, increase input in education, and promote culture and education which will be conducive to improving people's scientific and cultural qualities, washing away their outmoded concepts, and training a new generation of peasants. We should approach, understand, concern, and support it from a strategic and historic high plane and give full play to its important role in economic development and social progress. We cannot negate the historic contribution of township enterprises to the modernization program because of the problems cropping up in their development. Instead, we should constantly sum up experience and lesson, improve work, and promote the normal development of township enterprises.

During the period of improvement and rectification, the township enterprises of Langfang City should stress solving the following three problems in light of this principle:

1. Take the initiative in doing well readjustment work in accordance with the state's industrial policies. Viewed from the reality of Langfang's township enterprises, readjustment should start from the following two aspects. First, in light of the principle of efficiency, do well structural readjustment of enterprise organizations. It is necessary to give full play to the backbone role of large and advanced enterprises. With these enterprises as the leading factor, we should set up enterprise groups, bring along the ordinary enterprises, merge the inferior ones, strive to minimize the number of enterprises which are to close down and be suspended from production and increase the number of mergers or those which are to switch to the manufacture of other products, and increase the efficiency of the majority of enterprises. Second, with the changes in market demand and supply and readjustment of large enterprises in urban areas as the guide, it is necessary to readjust the product mix, develop and manufacture new products, manufacture, put into operation, and reserve a number of products, develop a market with the new products, and strive to make the products marketable at all times.

2. Regard strengthening enterprise management and increasing efficiency as an essential work. First, through establishing and perfecting various basic management and special management systems, it is necessary to urge enterprises to advance toward the objective of scientific management. Second, promote scientific progress in a planned manner. Third, further perfect the enterprise operation contracted responsibility system and deepen other reforms within enterprises. With the efforts made in various fields, we should strive to markedly improve the overall qualities of township enterprises.

3. Pay close attention to internal cooperation and external ties and strive to maintain sustained, steady, and coordinated development of township enterprises. In light of the characteristics of Langfang City, it is necessary to walk on two legs (self-reliance and "borrow water to fertilize the land"), focus attention on internal cooperation and external ties, and make full use of the advantages of the city's location which is adjacent to Beijing and Tianjin to establish extensive lateral ties. We have accumulated some experience in this regard in the past. In the future, we should continue to open new fields and develop new ways. Meanwhile, it is necessary to implement more preferential policies and create better conditions to attract foreign investors to invest in Langfang, run foreign-funded enterprises or joint venture, and enhance the overall economic strength and township enterprises of Langfang City.

### Township Enterprises To Enter Joint Ventures

90CE0069A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 12, 19 Mar 90 p 9

[Article by Tsung Hsi-chiang (0654 6932 3068) and Wu Te-hua (0702 1795 5478): "China's Township Enterprises Have Broad Prospects for Overseas Cooperation"]

[Text] During this period of booming development of township enterprises, a large group of production enterprises have adopted a new posture towards developing an export-oriented economy. By developing foreign trade and overseas cooperation, they have stepped onto the world's economic stage, and won the trust of foreign businessmen. According to incomplete statistics, there are currently close to 40,000 export-producing township enterprises exporting over 10,000 types of products to more than 100 countries and regions worldwide. From 1984 to 1989 these exports generated 36 billion dollars in foreign exchange. Thus township enterprises have now become a new force for generating foreign exchange through exports.

Over the last several years, as township enterprises have developed export-oriented economies, they have taken a long-term view, given full play to their strengths, and have emerged with an excellent impetus for development.

The policy of "three forms of import processing and compensation trade" started early and has developed

rapidly. This policy (receiving raw materials for processing, receiving parts for assembly, receiving products for processing, and compensation trade) started up relatively early in China's coastal areas due to convenient communications and the many overseas Chinese in those areas. This was the case in Dongwan in Guangdong Province, where the policy was introduced at the end of 1978. After Shenzhen was established as a Special Economic Zone (SEZ) in 1980, it gradually introduced the policy while developing an export-oriented economy. In some areas of Guangdong Province, this concept takes two main economic forms. One is to assign imported equipment a fixed price, and to deduct the equipment cost from processing fees, so that in most cases the cost is repaid in two years. The other does not assign imported equipment a fixed price; the Chinese side only collects factory rent while processing and management fees are calculated based on the number of workers. The two methods are similar in that the administrative factory director, accountant, and warehouseman are all appointed by the Chinese side. The two differ in that with the former, the Chinese side is responsible for the enterprise, while with the latter the foreign side manages the enterprise. Because the procedures for "three forms of import processing and compensation trade" are simple, economic cooperation can provide quite high economic benefits to foreign businesses, and can reduce immediate foreign exchange expenses for Chinese enterprises, while at the same time solving problems associated with insufficient materials. This form benefits both Chinese and foreign parties and thus has developed rapidly. From 1986 to 1988, the number of these enterprises increased from 4900 to more than 13,500, and processing fee revenues (in RMB) increased from 1.06 billion yuan to 2.94 billion yuan. Last year this increased by about 10 percent in comparison with 1988. In the last several years, businesses involved in "three forms of import processing and compensation trade" in places like Guangdong and Fujian have started developing medium- and high-grade products. Processing enterprises have expanded their scope, and are gradually linking together to form processing towns and regions, and are changing from simply processing imported materials to importing and processing materials and engaging in joint ventures and cooperative business operations.

Chinese and foreign joint venture and cooperative enterprises are developing by leaps and bounds. The following are some of the questions that arise when Chinese township enterprises engage in Chinese-foreign joint venture and cooperative enterprises. 1) When establishing such a business, is it possible to take advantage of local natural resources and local processing in order to reduce product cost and make exports more competitive on the world market? 2) In order to ensure an economic profit for the foreign business, the emphasis is on small-scale enterprises, low levels of investment (with both the Chinese and foreign sides investing between 500,000 and 3,000,000 dollars), a short construction period (from 6 months to over 1 year), and production of goods for export. 3) Good and courteous service is provided.

Particular care is given to demands such as a small batch size, more product variety, speedy delivery, high quality and low cost, as well as to developing the abundant labor capacity and natural resources of township enterprises. For these reasons, Chinese-foreign joint ventures and cooperative enterprises have developed rapidly in recent several years. In 1986 there were over 2400 Chinese-foreign joint ventures and cooperative enterprises, while by 1988 there were more than 4760. The output value of these enterprises rose from 744 million yuan in 1986 to 2.758 billion yuan in 1988, an increase of 270 percent.

Chinese-foreign joint ventures and cooperative enterprises are primarily concentrated in the textile, clothing, tool, building material, foodstuff, grains and edible oils, manufactured goods for daily use, shoes, toy, and tourist industries. Since 1988, there has been more and more interest in setting up joint venture and cooperative enterprises between foreign businesses and township enterprises, and foreign businesses are discovering the many benefits of cooperation with township enterprises. For example, township enterprises have the power to take the initiative, rapidly develop new products, vigorously open up new markets, and have the strength to compete and survive; for township enterprise investors, the overall cost of creating foreign exchange is low, while the benefits are good. Last year in Fujian Province, the agreed amount of foreign capital supplied by foreign business reached more than 100 million dollars, 269 enterprises of "three capital sources" were newly formed, surpassing the province's average rate of development for the previous three years.

The establishment of "trade, industry, and agriculture" alliance export commodity production bases has achieved remarkable success. So-called "trade, industry, and agriculture" alliances involve the close integration of foreign trade companies with township enterprises, give full play to the individual advantages of each, link up information, and have joint management and risk-taking. Foreign trade companies are familiar with the requirements of foreign clients for various products, they know international market prices, and can supply effective international market information to the producing enterprises. They can also help enterprises select favorable opportunities and a suitable form for concluding deals with foreign clients in order to obtain rather good economic benefits. Foreign trade companies also have relatively stable marketing channels and a sizable pool of skilled management and sales personnel. When these strengths are combined with township enterprises' advantages in labor, natural resources, and production, and "trade, industry, and agriculture" alliance export commodity bases are established, the technological development of township enterprises is promoted, and the enterprise's management quality, product quality, and staff quality is greatly increased. This is in accord with China's condition of developing foreign trade, and is also a good way for township enterprises to enhance the development of reserve strength. Shanghai has already begun forming a comprehensive export production base, concentrating on light industry and textiles

and producing over 1000 products in 20 major categories, such as silk fashions, clothing, drawnwork, handicrafts, knitting, and metal and mineral products. At present, over 1000 township enterprises in Shanghai have established relations with 25 foreign trade companies. From January to November of 1989, the value of export commodity deliveries reached 3.821 billion yuan, which represented a 44.1-percent increase over the same period in 1988, and fulfilled the year's export plan one month early.

Not long ago, 193 enterprises were jointly named by the Ministry of Agriculture and the Ministry of Foreign Economics and Trade as the first "trade, industry, and agriculture" alliance export commodity production base enterprises. These "base enterprises" will receive supportive measures and preferential policies from the state.

In recent years the Chinese government and township enterprises have taken the following steps in order to expand cooperation between township enterprises and foreign businesses and increase township enterprises' ability to generate foreign exchange through exports: 1) at 20,000 enterprises which generate foreign exchange through exports, more than 55,000 sets of advanced foreign equipment have been imported in order to expand production capacity, increase labor efficiency and ensure the quality of exports; 2) enterprise management has been strengthened and improved, export enterprises' products meet international standards, and before 1990 production could basically be carried out in accordance with international standards, with export enterprises practicing comprehensive quality management; 3) the training and quality of enterprise management personnel and workers has been improved; 4) there has been planned development of key enterprises whose yearly exports total more than one million dollars, and establishment of foreign-exchange-generating export enterprises has been concentrated in coastal regions. For example, the clothing industry is concentrated in Beijing, Dalian, Wuchang, Suzhou, Shanghai, Guangzhou, and elsewhere; household appliance [production] is concentrated at Shunde in Guangdong; production of small-scale farming tools is concentrated in Shandong and at Changzhou in Jiangsu; and toy production is concentrated at Dongwan in Guangdong, Yangzhou in Jiangsu, and elsewhere. There is a considerable concentration of export enterprises in these areas, the scale of the enterprises is large, the facilities are advanced, the quality of the workers is good, communications are convenient, and foreign businesses are most welcome.

## ECONOMIC ZONES

### Xiamen in Fujian Plans for Continued Growth

OW2706210690 Beijing XINHUA in English  
1451 GMT 27 Jun 90

[Text] Xiamen, June 27 (XINHUA)—The total industrial output value of Xiamen City in south China's Fujian Province will reach 13.5 billion yuan by 1995,

according to Shi Zhaobin, secretary of the city party committee, speaking today at the opening ceremony of the city's seventh Communist Party congress.

Shi said the industrial output value from foreign-funded enterprises will account for 60 percent of the total. The output value from exporting goods will make up 47 percent of the total, he said.

According to Shi, by the end of May, the city had approved 1,120 foreign-funded projects, involving a total investment of 2.988 billion U.S. dollars. There are now 300 Taiwan-funded enterprises, with a total of 800 million U.S. dollars in investment, he said.

### Hainan Province Draws Taiwan Investors

OW2506062690 Beijing XINHUA in English  
0055 GMT 25 Jun 90

[Text] Haikou, June 25 (XINHUA)—Hainan Province has received 1,700 Taiwan business people looking for investment opportunities since the beginning of this year.

They have already signed contracts to build 55 joint ventures in Hainan, involving 28 million U.S. dollars.

Recently, a large Taiwan electronics firm sent a delegation to Hainan to discuss investment opportunities with the local authorities.

An agreement on the use of 100 ha [as received] of land has been concluded between relevant Hainan departments and the Taiwan Electronics Company.

According to a local official, Hainan, which is also China's biggest special economic zone, is formulating preferential policies for Taiwan investors, concerning investment and management, land-use right, sales, entry and exit formalities, and taxation.

### Fast Economic Growth Set To Continue in Shenzhen

90CE0083A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 210, 16 Mar 90  
pp 24-27

[Interview with Shenzhen Mayor Li Hao by reporters Li Guoqiang (2621 0948 1730) and Wu Rongqin (0702 2837 2953) on 3 March 1990]

[Text] People watch Shenzhen closely because it is China's window to the world. People watch Shenzhen closely because it is a barometer of economic development in China.

Early last month a national SEZ [Special Economic Zone] work conference was held in Shenzhen Premier Li Peng and Vice Premier Tian Jiyun [3944 4764 0061] attended the meeting in person and addressed the gathering, reiterating the open policy and stressing the need to make the SEZ's a bigger success in the course of improving the economic environment and rectifying the

economic order. As the Basic Law of Hong Kong is about to be adopted and the dust begins to settle on the colony's future, the state of Shenzhen, the development of its economy, and the future of Shenzhen-Hong Kong relations once again are the focus of public attention. In the afternoon on 3 March, on the eve of the anniversary of the founding of the Shenzhen SEZ, we interviewed Mayor Li Hao [2621 3493] at the Shenzhen municipal government.

Mr. Li Hao has been interviewed countless times since January 1986. He said, "I am one of the readers of KUANG CHIAO CHING. I read every issue. Li Guoqiang has interviewed the secretaries of numerous provincial party committees, mayors, governors, and generals. Having seen so many things both north and south of Chang Jiang, he should someday write a masterpiece, lively, vivid, and substantive, like *Inside Europe*, by John Gunther."

*SEZ's: A Priority To CPC Central Committee, State Council*

Our interview began with the recent SEZ work conference.

Mayor Li Hao said, "The latest SEZ work conference was held in Shenzhen. Everybody was very interested. This is the fourth SEZ conference and since the last one was held over two years ago, it was eagerly anticipated. How was it? I think the very fact that the conference was held suggests that the CPC Central Committee and all pertinent departments in the country consider SEZ development a priority." Li Hao said that the conference was of critical importance as demonstrated by the following:

1. The CPC Central Committee and the State Council set great store by the conference. It was presided over by Vice Premier Tian Jiyun in person from beginning to end and was attended by leaders from 20 odd ministries and departments in the State Council and the CPC Central Committee, three provinces (Guangdong, Fujian, and Hainan,) and four SEZ's. Premier Li Peng made a special trip to Shenzhen to attend the meeting and deliver its keynote address. All this shows that SEZ's, reform, and the open policy are being taken seriously.

2. The SEZ work conference reiterated China's reform and open policies and made it clear in no uncertain terms that the basic policy on SEZ's will not change. On the contrary, SEZ's are to be further improved through practice. In addition, the conference helped the Shenzhen SEZ resolve a number of burning issues that had arisen as the economy developed. For instance, Shenzhen's economic management authority as a municipality with the decision-making power of a province was clarified, as was a number of foreign trade and foreign exchange issues. The examination and approval of projects and fund shortages were also dealt with.

*Shenzhen's Decade of Achievements Visible to All*

3. The leaders of the CPC Central Committee and State Council fully affirmed and highly praised the achievements of the Shenzhen SEZ and its export-oriented direction. Li Peng emphasized that the policy of setting up SEZ's is correct and that economic development in the zones has been rapid, citing as proof five leading indicators such as the utilization of foreign capital, exports, and gross value of industrial output relative to that of the nation. During the past decade, Shenzhen utilized a total of \$2.7 billion in foreign capital. Over 2,500 Sino-foreign joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-funded enterprises were set up. Both direct foreign investment in Shenzhen and the number of these three types of enterprises were about one-seventh that of the nation. In 1989, Shenzhen exports hit \$2.1 billion, the second largest among the nation's large- and medium-sized cities. Its gross value of industrial output totaled 11.6 billion yuan, of which exports were worth 6.8 billion. These achievements are there for all to see.

4. The CPC Central Committee and State Council have put forward even more specific and exacting demands regarding the zone's future direction of development, functions, and roles. It is hoped that the zone would pursue stability, development, and improvement in the course of improving the economic environment and rectifying the economic order. It must fully utilize its advantages and favorable conditions, strive to adjust the industrial structure, upgrade its industries, develop an even more export-oriented economy, and continue to fulfill its role as a "base" and "window."

It can be said that there has never been a greater measure of consensus on SEZ work than today. Nor has such work been more highly regarded. Facts have vindicated the policy of setting up SEZ's and the open policy. Li Hao said that in the next few years Shenzhen would apply itself to achieving even more healthy and coordinated development in the midst of economic readjustment for the following reasons:

1. Since reform and the open policy began, China's economic achievements have been considerable. But some problems have also appeared like economic overheating and inflation. Since the second half of 1988, therefore, China has been following the principle of improving the economic environment and rectifying the economic order. As part of China, Shenzhen is not immune to the impact of national adjustment in some ways. In any case Shenzhen's growth will slow down compared to the past when it was starting from ground zero. Having said that, Shenzhen remains different from the rest of the country in many ways, so economic rectification notwithstanding, there is still much room for growth in Shenzhen. On the one hand, with an export-oriented economy, it is more geared to the international market for funds, raw materials, and sales and less subject to the influence of the domestic market. On the other hand, the SEZ has laid a fairly solid foundation and built up considerable economic muscle. The rudiments of an industrial system with its own special

characteristics are already in place. It is capable of continuing to develop without affecting the interior. For instance, in the midst of the drive to improve the economic climate, rectify the economic order, and curtail investment, capital construction investment in Shenzhen has seen both ups and downs. For projects that would further improve the investment climate and develop the export-oriented economy, the green light is still on. In fact they have even gotten state support. As for projects to build "hotels, restaurants, and other amenities," projects that duplicate existing projects, and projects that are inconsistent with the direction of development of Shenzhen's industry, they have been firmly scaled back.

2. People outside may worry that economic rectification would significantly affect economic development in Shenzhen. The fact of the matter is that economic development comes in cycles. The purpose of readjustment is to make the economy develop in an even more healthy and coordinated manner. In 1985, for example, Shenzhen also underwent an adjustment, with calls being made for the zone to shift from foundation-laying and doing things on a lavish scale to improving its standard and efficiency. At that time, a host of capital construction projects was scrapped and the industrial structure was adjusted. The result? Instead of faltering, Shenzhen's economy reached a new high, becoming more rational structurally, more healthy and stable, and much more export-oriented. In 1989, like the rest of the nation, Shenzhen went about rectifying the economy in earnest but still managed to achieve a rate of growth notably higher than the nation's. I can cite some important numbers here to illustrate. In 1989, the city's gross value of industrial output reached 11.6 billion yuan, up 335 percent over 1985, a preadjustment year. Both municipal income and domestic output value increased almost 200 percent. Exports rose 300 percent. Industrial exports accounted for 58.4 percent of total exports, up from 37.1 percent, while the share of locally made goods was 63.2 percent, up from 40 percent. Thus the issue of adjustment cannot be looked at simple-mindedly but must be analyzed scientifically from a development perspective. As a matter of fact, it is a question of the relationship between strategic defense and local offense. Nationally speaking, the adjustment period is a time of strategic defense. But even so, there should be local offense as well to lay the groundwork for total offense. With local offense, Shenzhen should be able to achieve much and develop faster.

*Push for an Export-Oriented Economy, Strive To Operate in Accordance With International Practices*

Li Hao said, "Shenzhen must carry out the policy of reform and openness further, stride to develop an export-oriented economy, and work hard to achieve the goal of operating in accordance with international practices."

He said, "In the next few years SEZ will lay an even firmer foundation for the second decade." Li Peng, he

noted, has described these several years as a golden era in Shenzhen production. In the next few years, Shenzhen should continue to grow at a fairly rapid rate provided efficiency is improved so that its export-oriented economy would expand further."

Li Hao said, "We envision the 1990's to be a formative stage in the development of Shenzhen. That is, it should be a time when Shenzhen becomes an industry-centered SEZ where the tertiary industry is a major sector of the economy and where science and technology are advanced, an economically prosperous and politically sound window to socialism. Every effort should be made to catch up with moderately developed nations in per capita industrial output value, to develop into an important export base for the nation and a successful laboratory in economic and political structural reform, and to take the lead in operating in accordance with international practices by the end of the century, thereby contributing to building socialism with Chinese characteristics. To achieve these objectives, Shenzhen has its work cut out for it. Its responsibility is tremendous."

*Complete Nine Major Projects, Improve the Infrastructure*

Meanwhile, Mayor Li Hao said, Shenzhen should further improve its infrastructure. In the next three years or so, it must accelerate infrastructure projects in energy, transportation, water supply, and so on. He said, "Some of our major capital construction projects will be completed one after another in the next few years." Shenzhen's nine major projects include an international airport, the Yantian deep-water port, the railroad terminal remodeling project, Huanggang harbor project and projects to improve the Mawan deep-water harbor and the wharves at Chiwan and Dongjiao, the Guang-Shen and Hui-Shen highways, which are the two principal routes for exports, the Shenzhen section of the Guang-Shen-Zhu expressway, road works within the city, a postal building and other projects to improve or provide domestic telephone, long-distance telephone, mobile telephone, and small walkie-talkie services. In addition, there are plans to build three power plants at Nantou, Shatoujiao, and Huaneng, develop new water resources, and build a sewage plant. Every effort will be made to complete them as soon as possible to improve the investment climate notably.

*State Council Approves Administrative Division Plan for Shenzhen*

Legislation too must be speeded up to improve the intangible environment. In 1989, the second meeting of the Seventh NPC adopted a resolution on the establishment of a people's congress in Shenzhen and the granting of law-making power to the city. Mayor Li Hao said, "Moreover, the State Council has recently approved an administrative division plan for Shenzhen. We are now working on the setting up of a people's congress at the municipal and district levels. Law-making in Shenzhen is set to speed up. In addition, we will improve in earnest

the way the departments work to make them more efficient. The training of qualified personnel will be tackled aggressively to meet the needs of developing an export-oriented economy. All this is an important part of our drive to improve the investment climate."

Further developing its export-oriented economy is a major task for Shenzhen in the future. Mayor Li Hao said that increasing the extent of export-orientation steadily is the goal of economic development as well as the direction further clarified at the latest SEZ work conference.

He said, "Our major measures and plans are as follows. First, develop a host of export-oriented key enterprises and popular products. In the next two to three years, develop a number of key enterprises earning \$10 million to \$100 million in foreign exchange and support them with an appropriate preferential policy. Second, review the success stories among existing enterprises. Zhonghua Bicycle Factory, Kangjia, Zhongguan, and other companies both are profitable and earn large amounts of foreign exchange. Their experience should be disseminated. Third, vigorously open up the international market, master marketing channels, develop trade ties with distant countries, and capture more orders. Fourth, attract foreign capital in a purposeful way based on the development strategy. For instance, capital- and technology-intensive industries like the petrochemical industry should be encouraged. Shenzhen remains well placed to attract foreign capital. Besides its proximity to Hong Kong and cheap labor costs, it boasts a high-quality labor force and an army of skilled and qualified workers. Also, economic groups can be formed readily. Our color TV tube plant, for instance, needed over 100 highly trained professional personnel as soon as it opened. We promptly solved its problem through recruitment and transfer. Fifth, continue to cooperate with the interior and encourage and support the interior in building enterprises in Shenzhen that are technically and managerially advanced, sell their output overseas, or manufacture import substitutes. Alternatively, the interior may jointly set up enterprises with Shenzhen in high-tech industries and develop a number of corporations with their own flagship products. Work hard to develop an export-oriented economy featuring processing with imported materials to increase their value and then export the finished products. Fulfill Shenzhen's role as a 'window' and 'base.' Sixth, ensure the success of tax-guaranteed processing zones. One such zone has been set up at Shatoujiao. Now there is a second one at Futian. Conditions permitting, a few more tax-guaranteed processing zones should be built in the future. These measures should powerfully fuel Shenzhen's drive toward an export-oriented economy."

#### *New Reform Measures To Be Introduced*

Li Hao emphasized, "The SEZ is a product of China's reform and open policies. Its achievements thus far were obtained under those policies and its future development cannot be separated from those policies, as already

proven by practice. In the next several years, a number of new reform measures and plans will be unveiled successively. In enterprise reform, for instance, we must build on the present contract management responsibility system and continue to improve the factory director (manager) tenure responsibility system and the management of investment, consumption, and credit funds. Pilot projects in shareholding will be continued, as will reforms to further and improve the transfer of enterprises and property rights in order to form a property rights transfer market and encourage enterprises to develop self-improvement, self-restraint, and self-development abilities. In banking reform, we must work hard to nurture a stock market and make the establishment of a stock exchange a priority, thereby creating a fund market. In addition, a capital goods market should be set up. The wage and social insurance systems should be reformed. The purpose is to create an insurance system centered on social insurance personal specialized household system that combines self insurance with social mutual help."

Li Hao said that through these reforms Shenzhen should be able to better utilize fiscal, tax, credit, and wage policies as leverage and create a more relaxed economic climate where enterprises would operate in accordance with international practices. In short, as Li Peng told the latest SEZ work conference, SEZ's may give market regulation a bigger role in a wider area using more flexible methods in light of their special characteristics.

#### *Li Hao Values Future Cooperation Between Hong Kong, Shenzhen*

Li Hao valued Shenzhen-Hong Kong cooperation. He said, "Shenzhen-Hong Kong economic cooperation is of interest to both sides. Since reform and the open policy began in China, the two sides have entered into extensive and effective economic and technical cooperation, which has been an enormous boost to both economies." According to Li Hao, every day 400,000 people in Shenzhen work in processing (three kinds of processing and compensation trade) factories built by Hong Kong businessmen, not counting those in Sino-foreign joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-owned enterprises. By cooperating with Shenzhen, many small bosses have become big bosses. With economic development now entering a new stage in both Shenzhen and Hong Kong, complementary economic cooperation that supplements each other has come to assume more prominence. We feel that economic and technical cooperation with Hong Kong should take place on a large scale and on a higher level.

Whether before or after 1997, capitalist Hong Kong and socialist Shenzhen have cooperated very well in the past and will do so even better in the future. Hong Kong's Basic Law provides a guarantee of its prosperity and stability. Shenzhen and Hong Kong each have a different system and play different roles; economically, however, they complement and advance each other to prosper together. As a free port, Hong Kong will continue to be a

multifunctional international economic center. As a SEZ, Shenzhen will continue to fulfill the four functions of a "window" and be the point from which foreign funds and technology are disseminated to the interior. If Hong Kong prospers, it will certainly fuel the growth of Shenzhen. The development of Shenzhen, in turn, is of tremendous significance in maintaining the stability and prosperity of Hong Kong and its international position. As far as Hong Kong and Shenzhen are concerned, there is no question of who supplanting whom.

*How To Intensify Future Complementary Cooperation Between Hong Kong, Shenzhen*

Li Hao said, "Judging from the economic muscle of the two places at present, Hong Kong is much stronger than Shenzhen. But Hong Kong too has its weaknesses, such as the lack of resources, labor shortages, exorbitant land prices, relatively poor technology, and the lack of senior engineering and technical personnel. As a newly developed city, Shenzhen boasts an extensive hinterland and a vast pool of scientific and technical forces in the interior. It has much potential that remains to be tapped, which means that there is a good deal of room for development in Shenzhen. I think cooperation between Shenzhen and Hong Kong in the future should be strengthened in these areas. First, their industrial structures should be made complementary. That is, we should bring together Hong Kong's funds, information, and sales network with the interior's technology, qualified personnel, and technical development capacity through Shenzhen. Meanwhile, Shenzhen should apply itself to developing a number of raw materials, parts and components, and basic industries to expedite industrial turnover together. Second, they should complement each other in urban functions and infrastructural facilities. In Shenzhen, land is plentiful, population density is low, and the costs of investment are limited. Shenzhen should capitalize on these advantages and concentrate on putting together a number of large-scale infrastructural facilities such as a port, airport, and expressway so that both places can allocate and utilize resources more effectively. Third, they can complement each other in services. Hong Kong is the bridge through which international capital and international goods find their way into China, whereas Shenzhen is a transfer station between the Hong Kong and mainland economies and a special channel through which the mainland economy can enter the international market."

*From Private Exchange to Official Cooperation*

Finally Mayor Li Hao said that Hong Kong and Shenzhen should develop a complementary relationship under the reform and open policies by making full use of all favorable conditions. Their cooperation may take a variety of forms through diverse channels. Right now such cooperation consists primarily of private exchanges. Over time it should include private, semiofficial, and official cooperation and exchanges to achieve common prosperity.

**Shenzhen Tops in Export of 10 Types of Goods**

*OW2406052990 Beijing XINHUA in English  
1209 GMT 22 Jun 90*

[Text] Shenzhen, June 22 (XINHUA)—Shenzhen ranks first in the production and export of 10 types of manufactured goods, thanks to rapid development in the past decade.

Ten years ago Shenzhen was a sleepy border town with only a few obsolete factories. Its annual industrial output value was only 60 million yuan in those days.

The first special economic zone (SEZ) in China was set up in Shenzhen in August 1980. Since then, the city has introduced overseas investment to develop export-led industry. By the end of 1989 Shenzhen had 2,470 industrial enterprises, covering electronics, textiles, petrochemicals, metallurgical products, building materials and light industrial products, and producing more than 800 varieties of goods. The industrial output value reached 11.645 billion yuan last year, 194 times the figure for 1979.

Electronics have developed the most rapidly of all the industrial sectors in Shenzhen. Before the SEZ was set up, Shenzhen had only one small workshop producing loudspeakers; it now has more than 500 electronics factories, whose output value accounts for about half of the total industrial output value. Since 1987 Shenzhen's exports of electronic goods has ranked first among the 26 key cities in China.

Shenzhen is the biggest producer of electronic watches, quartz oscillators and liquid crystal display chips in China. In 1989 it produced 10.512 million electronic watches, 1.93 million quartz oscillators and 101.73 million liquid crystal display chips. In the same year it exported 8.651 million, 1.26 million and 100.21 million, respectively.

The city exported 757,000 bicycles in 1989, also ranking first among Chinese cities.

In addition, Shenzhen's production and export of soft drinks is also in the first place in China.

**LABOR**

**Government Releases Employment Figures**

*HK1206055390 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 11 Jun 90 p 3*

[By staff reporter Wang Xianwei]

[Text] The outlook for employment in China still looks bleak across the board.

The latest government statistics show that company CEOs and factory managers are having to slash their payrolls because of the current production and market slump.

In April, the number of workers totalled 136.03 million, down by 1.40 million from the year-end figure.

However, it seems that the pace of unemployment has slowed down. In March, 1.65 million people were off the payroll, compared to the yearend figures.

According to the State Statistical Bureau, of the 1.4 million people who had gone off the work pay rolls, nearly 1 million had retired while the rest were forced out of work.

The April payroll at the State-owned enterprises was down 613,000 to 100.47 million while the collectively-owned enterprises reduced their payrolls by 790,000 to 34.23 million.

Meanwhile, the foreign-funded enterprises and private businesses sent only 5,000 people home, with the total number of workers standing at 1.32 million.

Economists said that due to the ongoing austerity measures and market slump, workers at the collectively-owned enterprises had been hardest hit, with its total number posting the steepest fall.

In contrast, workers at the State-owned enterprises had much easier access to government subsidies and various benefits.

Meanwhile, in the first four months of this year, the total volume of wages and salaries for workers rose 8.6 percent over the same period last year to 83.14 billion yuan (\$17.65 billion).

However, when adjusted for inflation, the net increase was no more than five percent, which would be unlikely to put pressure on inflation, one economist said.

Of the total, the workers at the State-owned enterprises saw a 9.5 percent increase in their wages and salaries to 65.52 billion yuan (\$13.91 billion) while the figure for workers at the collectively-owned enterprises only inched up 3.6 percent to 16.45 billion yuan (\$3.49 billion).

However, due to the hefty growth of the foreign-funded enterprises and private businesses, the workers in those two sectors saw a 39.8 percent rise in their salaries and wages to 1.17 billion yuan (\$248 million).

In another development, inflation continued to drop on a month-by-month basis.

In April, the general retail price index increased 3.1 percent over the same period last year while the living cost index of residents climbed by 3.2 percent.

The retail price index on consumer goods inched up only 2.5 percent as the State-owned commercial outlets posted a 3.4 percent rise in the retail price index.

## TRANSPORTATION

### Plans Laid To Build High-Technology Ships

OW2806112590 Beijing XINHUA in English  
0703 GMT 28 Jun 90

[Text] Beijing, June 28 (XINHUA)—China plans to develop 19 types of hi-tech ships during the next few decades, in a bid to raise the competitiveness of its shipbuilding industry and serve the needs of domestic economic growth, according to the China State Shipbuilding Corporation (CSSC) today.

The ships will include gas transporters, chemical product freighters, bulk cement carriers, large container ships, automobile and passenger freighters, and luxury liners.

According to a CSSC official, China aims to bring its shipbuilding technique up to the advanced world level of the 1980s by the end of 1995.

China's shipbuilding technology is expected to be upped to the level of the early 1990s by the end of this century, the official said.

### Heilongjiang Improves Transport Safety

SK2506081590 Harbin Heilongjiang Provincial Service in Mandarin 0900 24 Jun 90

[Text] The provincial highway communications Departments have allocated a total of more than 10 million yuan of special funds to improve highway communications security and to guarantee the safety of passengers. In order to improve social security work on highways, our provincial communications departments have allocated more than 10 million yuan of special funds since last December to print and distribute more than 10,000 bulletins display and to make more than 7,000 tape recordings for distribution to all highway transport stations and buses throughout the province. At present, more than 8,000 highway buses of 447 highway passenger bus stations and substations throughout the province are provided more than 14,000 full-time or part-time security personnel. According to statistics, during the past six months, with the cooperation of security personnel, public security cadres and policemen, and security cadres captured 57 (? gangs) engaging in criminal activities on highway lines and long-distance passenger buses. The 183 criminals involved were all arrested and brought to justice.

### Construction of Belt Road Around Jinan Begins

SK2106071190 Jinan DAZHONG RIBAO in Chinese  
20 May 90 p 1

[Summary] Construction of the project to built a belt road around Jinan City to ease the traffic congestion of the city started on 19 May. The eastern section of the road starts from Daqiao Road, passes through Qilibao, and ends in the Jingshi Road in the south; the southern

section starts from Jingshi Road, goes south to Jiangshuiquan and Bandaojing, and goes west to end at the overpass in Jinpu Road; the western section starts from the overpass, goes through Duodian South Road and Duodian North Road, and ends in Daweizhuang in the north; and the northern section starts from Daweizhuang, goes east through Luokou, and links with the large overpass at the intersection of Jiqing Road. The belt road will be 51.4 km long and 50 meters wide. Construction will be divided into two stages. The first-stage construction covering the western and northern sections and some part of the eastern section is planned to be completed and open to traffic by the end of next year.

### Shenzhen Launches Automatic Traffic Control System

OW2706000990 Beijing XINHUA in English  
1428 GMT 26 Jun 90

[Text] Shenzhen, June 26 (XINHUA)—An automatic traffic control system for 257 km of highway in Shenzhen's Shangbu and Luohu districts went into use here today.

The system's main equipment and software were imported from Japan and the United States.

The system, built at a cost of 15 million yuan, will reduce the idling time of vehicles by 20 percent, and increase speeds by 15 percent.

Authorities estimate the system will save five million yuan each year by reducing fuel consumption and improving transport efficiency.

About 80,000 vehicles operate every day in urban areas of Shenzhen, a average of 270 vehicles per km.

## AGRICULTURE

### Means of Raising Agricultural Productivity Discussed

90CE0116A Tianjin KEXUEXUE YU KEXUE JISHU GUANLI /SCIENCE OF SCIENCE AND MANAGEMENT OF S&T/ in Chinese Nos 2, 3, 1990

[Article by Wu Huien (2976 1920 1869), Wu Qingsong (3019 7230 2646), and Liu Aijun (0491 1947 6511), Jincheng Municipal Rural Economic Committee, Shanxi: "Study of Laws of Motion of Productivity for the Purpose of Spurring Reform and Development of Agriculture—Theoretical Ideas and Policy Conceptions for the Development of Agricultural Productivity"]

[No 2, 1990 pp 3-5]

[Text] We have a strong feeling as a result of work practice and theoretical reflection that after 10 years of reform the major contradictions limiting further increases in productivity have undergone major changes.

During the next 10 years, the emphasis in policy thinking and work for the development of rural reform and development should be on strategic advance—taking a revolution in production as the main line for coming forward with new policies in the development of a new situation.

### I. The History of Development of Productivity Both in China and Abroad Shows That Scientific Advance in Increasing Means of Labor Performance Is the Main Way To Develop Productivity

As a result of a re-examination of nearly 40 years of accumulated experience and its lessons, by the time of the 13th Party Central Committee, the Party unequivocally discarded "production relationship standards" for economic development, proposed productivity standards instead. This was a historical leap in economic theory and economic policy. But what had to be done to develop productivity in a fruitful manner? Obviously, this required study and reliance on the laws of motion of productivity to implement policy decisions. We studied so many economic laws in the past, yet we did not study thoroughly the laws of productivity, so quite a few distorted theoretical concepts appeared. We believe that understanding of the following several points should now be clarified:

#### A. It is Necessary To Use the Substance of Productivity To Develop Productivity. Development of Production Should Not Be Confused With Development of Productivity. There Should Be No Sole Pursuit of Increase in Quantity to the Neglect of Improvement in Quality

1. Just what does development of productivity mean? Productivity is expressed in terms of both quantity and quality, and its substance is expressed in ability to produce material goods. The overall criterion for judging whether this productivity is high or low is to look at the magnitude of use value produced per fixed amount of labor energy expended. This use value is primarily the production-investment ratio, the conversion rate, and it is embodied, in the final analysis, in the labor productivity rate. Judging whether productivity has increased also requires taking a look at the quantitative scale of products, but the basic yardstick for examination is to look at whether efficiency is high or low. In 1986, China's gross output of grain, cotton, meat, and eggs was the highest in the world, but that did not show that its productivity was at a top level in the world.

2. The backward nature of China's agricultural productivity shows up in a low order of efficiency that is rising slowly, and this is the underlying cause of the failure of agriculture to move ahead, the scarcity of agricultural products, the not very high peasant wealth, and the price scissors that are difficult to dispel. The 13th Party Central Committee report noted pointedly that currently "the focus of contradictions lies in the too low returns from economic activity." In 1987, each member of China's agricultural workforce (exclusive of the 81 million members of the workforce who transferred to a

nonagricultural status but who continued to work concurrently in agriculture) produced an average of 1,311 kilograms of grain, and 72 kilograms of meat, an amount of grain somewhat higher than the 1,000 kilograms per capita of the Han Dynasty, but only 1.13 and 0.87 percent of the corresponding indices in the United States in 1986. Each member of the workforce produced an output value of 1,514.60 yuan, which was only 10.2 percent of the per capita output value of 15,500 yuan produced in state-owned enterprises in 1986, and only 1.38 percent of the per capita output value of America's rural workforce of \$55,300. It was also 16.4 percent lower than the average per capita \$915 in developing countries. This shows that even when farm product prices and the output value profit rate increased, except for an increase in the supply of surplus products for the peasants personal consumption, the absolute value of the gains of those employed in agriculture, and the extent of peasants' wealth would remain at a very low level! If the situation is judged without reference to this state of affairs, the crux of the agricultural problem will be obscured.

3. This demonstrates the need to make improvement of agricultural efficiency an important ingredient in the development of agricultural productivity. Although a rise in prices of agricultural products is necessary, even more important is a lowering of prices as a means of effecting a permanent cure in developing productivity. As part of their modernization process, developed countries steadily raise production efficiency, thereby steadily lowering value and lowering prices in a process that permits a steady increase in use value. This is a material component in raising the level of productivity. China must also take this road. However, prior to reform, we mistakenly regarded increased production as being the same as an increased level of productivity, even to the point of not hesitating to increase consumption in order to expand output, thereby causing worse damage to productivity. Since reform, some people continue to focus onesidedly on increases and decreases in output, using this as the main basis for evaluating the development of productivity. In the formulation of strategic objectives and agricultural development plans, they only set quantity norms without setting labor production rate return norms.

**B. Need To Depend on the Laws of Motion of Productivity To Develop Productivity, Clarifying the Correlation Between and the Different Roles of Each Essential Factor Without Exaggerating the Role of the Labor Factor to the Neglect of the Decisive Role of Material and Skills Factors**

1. Labor is not the factor that plays a decisive role in productivity. Real productivity is made up of a combination of the three material elements of labor, the means of labor, and the object of labor, plus the infusion into these elements of the elements in knowledge form of science and technology, management, and information. The history of development of social productivity shows

that although the quality of workers and worker enthusiasm for labor have a major effect on productivity, it is not labor that determines the nature and the level of productivity. Although primitive man had very high enthusiasm for labor out of a need to survive, because he used primitive means of labor, his productivity could only be at an extremely low level. Under the slave system, the enthusiasm for labor of slaves was extremely low, but productivity was higher because of progress in the means of labor. The enthusiasm for labor of employees under capitalism has to be lower than for land-holding peasants and small proprietors, but their productivity is immeasurably higher.

2. The means of labor embodies in a concentrated way the material and technical level of social production. It is an indicator of the nature of productivity and the level of development. The determining factor and indicator in the successive major takeoffs in productivity from the primitive economic age to ancient times, recent times, and modern times was the tremendous advances in the performance of the means of labor. Marx made a scientific analysis as follows: "The distinction among various economic ages lies not in what was produced, but in how it was produced, and what means of labor was used to produce it." One might say that only with a certain level of the means of labor could there be a certain level of productivity.

3. Improvements in the means of labor rely, in turn, on advances in science and technology. An examination of the historical development of productivity in ancient and modern times, in China, and abroad shows one fundamental law of motion of productivity as follows: The development of productivity began, first of all, with improvement in the means of labor, and improvement in the means of labor resulted from advances in science and technology. In the final analysis, the raising of the level of the means of labor through scientific and technical advances was the dominant means of developing productivity, and played a decisive role. Use of advanced science and technology permits not only a qualitative rise in the performance of the means of labor and the object of labor, and in the quality of workers, but also enables a better combination of the three at a new level. The following diagram that a scholar came up with may be used to describe this:

Productivity = (labor + the means of labor = the object of labor) x science and technology. In September 1989, Comrade Deng Xiaoping said the following: It should also be said that science and technology are "the first productivity." This is truly a new profound revelation of the law of development of productivity in the Marxist history of development.

4. For a long time, however, we have onesidedly stressed and exaggerated the role of labor, and particularly the role of labor enthusiasm. "The first productivity" was not placed first, and the decisive factor was not placed in a decisive position. We mistakenly assumed that so long as there was human enthusiasm, even with just a donkey

and a carrying pole it was possible to create miracles in the development of productivity. Faced with the faltering in agriculture of the past several years, there are still some people who regard means of evoking peasant enthusiasm as decisive. They suppose that by giving the peasants several "long lasting tranquilizers," such as permanent tenant rights or even private land ownership, magical efficacy can be produced. Of course, this would have a certain effect, but lacking any tremendous rise in material and technical factors, productivity could not develop to a new level. A review of the old illuminates the new. In reviewing the period of individual farming in the period immediately following founding of the People's Republic, not only did the peasants have complete land use rights, and production and marketing autonomy, but they also had land ownership. Both their decision making authority and their enthusiasm might be said to be high, but this high enthusiasm did not directly change the low level of productivity!

**Two Methods Must Be Used To Develop Productivity. The Revolution in Production Relationships Should Not Be Confused With and Take the Place of the Revolution in Productivity Itself. One Should Not Exaggerate the Role of the Former While Overlooking the Role of the Latter.**

1. Development of productivity requires the use of two methods at the same time. Productivity is made up of various factors in combination. This means that in order to develop productivity, first, there has to be a superior organization of all factors; and second, all factors have to be improved.

2. The method of organizing the various key elements in productivity, and the method of reconstituting all key elements in reproduction that have undergone transformation, we view as a basic component expressing production relationships as follows: the way of organizing labor with the means of labor and the objects of labor, the forms of ownership in production relationships (contracting and leasing also being forms in which ownership is realized), people's status and relationships, as well as the forms of distribution dictated thereby. In terms of the production process, the material form and the value form of all elements is changed and reconstituted. This change and reconstitution also expresses the production relationship among the various links of distribution, exchange, price, markets, and consumption. Thus, the optimization of groups requires readjustment and transformation of production relationships. (Naturally, organization methods are not all equal to, nor do they completely reflect, production relationships.)

3. Qualitative improvement in the key factors for improving productivity is expressed as the building of productivity in which the major quality change is the revolution in the key elements of productivity, which may be termed the productivity revolution for short. The development of productivity in the handicraft industry of the middle ages into modern large industrial productivity was made possible by the mechanical, electric, and electronic revolutions in productivity. The development

of traditional agricultural productivity into modern agricultural productivity was made possible primarily through three revolutions in productivity, namely the biological revolution, the chemical revolution, and the power revolution.

4. The history of development of productivity shows that the transformation of production relationships cannot take the place of the transformation of productivity itself. Superior organization methods, and superior production relationships can produce four effects on productivity as follows: First, they can make all key elements perform better; second, they can permit trouble-free production; third, they can multiply returns (increases in productivity resulting from cooperation in Marx's analysis); and fourth, they can create the mechanism and conditions that stimulate the enthusiasm of labor, and that help improve all key elements. Therefore, the transformation of production relationships is a major way in which to promote the development of productivity. Under certain conditions, it can also play a decisive role. However, this first is most certainly neither the only way nor all that is required to develop productivity; second neither can it play a decisive role under all circumstances; and third, the transformation of production relationships is not in and of itself equal to the direct development of productivity inasmuch as it only provides the "possibility" for raising productivity. This possibility can be realized only through the improvement and renewal of all the key elements in productivity, meaning that another transformation of the key elements in productivity is necessary, and in most circumstances this is the main way in which to develop productivity.

Examination of the historical process by which foreign countries modernized their agriculture shows that both socialist and capitalist countries transformed the aforementioned production relationships and key elements in productivity. This is extremely clear in the case of the United States and Japan, but primarily the experiences of Hungary are considered here. In 1986, Hungary instituted the "New Economic System" in the formal beginning of the transformation of agriculture, substantially modernizing its agriculture within 10 years. By 1977, per capita amounts of grain, meat, eggs, vegetables and fruits were the highest among the Council of Mutual Economic Assistance countries. It changed from being a net deficit country to an exporting country for these products, and both its soil productivity rate and its labor productivity rate were higher than that of the USSR, and close to that of France. Output per worker of cereal grain, meat, eggs, and milk was respectively 9.7, 17.6, 128, and 47.7 times as high as in China 10 years later in 1987. By 1980, its grain yields per unit of area jumped to fourth place in the world, yields of millet, wheat, and corn occupying second, fifth, and eighth places respectively, which were 1.7, 1.7, 2.4, and 1.4 times again as high as yields in China. One of the reasons was reform of the economic system, and of the marketing and price system, much of which was similar to events in China. The difference was that China was still devoting major

efforts to the three great revolutions in agricultural productivity. Fine varieties and breeds were being introduced into farming and animal husbandry; chemical fertilizer use increased fourfold in 10 years; tractor power doubled; the entire cereal grain production process was mechanized; and factory methods were introduced into the raising of livestock and poultry for the substantial completion of the change from traditional agriculture to modern agriculture.

5. Prior to the reforms, China had a rich "production relationship determinism" concept that was manifested prominently in three regards, as follows: One was the lopsided exaggeration of the counteraction of production relationships on productivity, mistakenly supposing that only by readjusting production relationships could productivity develop naturally. Second was mistakenly believing that the higher the grade of production relationships, the faster the development of productivity for a constant preoccupation with the great revolution to upgrade production relationships constantly, regarding this as the decisive means and a panacea for the development of productivity while lacking understanding of the revolution in productivity itself, and repeatedly neglecting it or even condemning it as a "reactionary theory of the sole importance of productivity." Third was readjustment of production relationships, and the selection of organization methods, which should have been able to shape the aforesaid four effects on productivity, particularly being able to spur scientific and technical progress and raise the level of the means of labor. However, the system and methods adopted in the past got in the way of or even prevented technological advances in agriculture.

6. The influence of these ideas continued even after rural reform. At the beginning, we focused on a readjustment of the existing ultra-leftist large common pot egalitarian system, and the price and sales systems, gaining remarkable results, but these were just remarkable results produced under "certain conditions." Their main effect was to stir the enthusiasm of labor, which had been repressed, thereby enabling the concentrated release of the potential energy of the means of labor and the objects of labor that had built up over the years, enabling a compensatory increase in amount and scale of productivity. Nevertheless, the reform of these production relationships per se did not amount to, nor did they enable, much new qualitative improvement of the key elements in labor productivity, namely the means of labor and the objects of labor. Consequently, the quality and the level of development of productivity did not improve qualitatively. Nevertheless, because they had shaped a sort of "all-encompassing" mindless, intoxicated, and skewed experience, some people once again disregarded the revolution in the key elements in productivity. After grain output began to falter, they only sought remedies and pinned their hopes on production relationships involving "guarantees for 30 years," and

"fulfillment of large scale assignment of responsibilities," but they did not make the renewal and improvement of the key elements in productivity the main means of developing productivity.

To summarize the foregoing, China seems to have a thought tradition that "favors" the revolution in production relationships to the neglect of the revolution in productivity. This has its origins in and is constrained by the theoretical legacy of its forebearers, and is related to a lack of creativity. The historical task that the founders of Marxism faced in their time was, foremost of all, the overthrow of the old production relationships, so they devoted efforts to the study of production relationships and the laws of their motion, i.e., political economics, emphasizing the tremendous role of transformed production relationships on productivity. However, after we became the ruling class and overthrew the old production relationships, when we should have striven to study productivity and the laws of its motion—productivity economics—and to study the strategy and tactics of the productivity revolution, we continued to regard change in production relationships as the principal method. Furthermore, these lopsided theories and methods became a legacy of "experience" during the past 30 years. At the beginning of reform, we declared victory in the first battle to reform production relationships, and this also became a new legacy of experience, and it remained difficult to escape from the narrow circle of "favoring" production relationships! Such a "stream of subconsciousness" cannot continue to flow.

[No 3, 1990 pp 27-30]

[Text] II. Analysis of the Present State and Trends of Agricultural Productivity Also Demonstrates Strikingly That Improvement of Material and Skills Factors Is Decisive in Scaling New Heights

A. Despite 10 Years of Reform, Both the Means of Labor, and the Objects of Labor in Agricultural Productivity Remain Substantively Unimproved and Have Regressed in Some Ways

1. In some places, agricultural labor has become weak—the labor factor being expressed in terms of quantity, quality, and enthusiasm. Labor may be generally characterized as too large in size and of not very high quality. In some nonagricultural developed rural areas, the peasants are apathetic about agriculture, and the labor force is weak. It tends to be old, made up of women to a large extent, and poorly educated.

2. Regression of some of the means of labor. The means of agricultural labor are made up largely of three sets of things as follows: A set of production tools, including water conservancy and plant protection machines and devices; energy, including fuel and energy used in agricultural production; and production buildings such as hot houses, large sheds, animal pens and shelters, and storage. These facilities may be generally characterized as backward and in short supply, with some of the main means of labor having regressed. More than one-third of

water conservancy equipment is old and damaged. The effectively irrigated area was more than 10 million mu less in 1987 than in 1980. Total farm machinery power has increased but little, amounting to 248.36 billion watts in 1987, but most of it was equipment converted from agricultural to non-agricultural purposes, and an estimated only one-third of it was used in agriculture because of the serious shortage of fuel and electricity. In 1987, the machine-cultivated area was 68 million mu less than in 1980. This was 450 percent of the total cultivated land area, 14.5 percent of the machine-planted area, and 6.3 percent<sup>5</sup> of the machine-harvested area. As a result of cutting up the land into overly small plots, a number of formerly used large tractors, seed drills, and harvesting machines lay idle, and large number of heavy pieces of equipment of low efficiency such as human-powered seed drills re-appeared. Ancient Model "10075" equipment (carrying poles, wicker baskets, hoes, and wooden plows) remain the main tools used. A survey conducted in Xiyang County by the deputy director of the Shanxi Provincial Academy of Social Sciences, Chen Jiaji [7115 1367 7535], et al showed 15 different farm tools as still being in general use there, 40 percent of which were invented during the iron age more than 1,000 years ago, 33.3 percent of which were invented 2,000 years ago during the bronze age, and 26.7 percent of which were invented 4,000 years ago during the neolithic age.<sup>6</sup> The use of plastic sheeting for mulch in growing crops has been termed the white revolution. In 1986, Bishui County grew 10,000 mu of corn and wheat using plastic mulch, increasing yields by 130 and 140 percent respectively. In 1987, remarkable results were obtained in more than 20 provinces and cities throughout the country from the growing of 188.26 million mu of grain crops using plastic mulch. This included a 180 kilogram per mu increase in yields of corn on 5.94 million mu,<sup>7</sup> truly tremendous results for little expenditure. Nevertheless, the amount of plastic sheeting used in agriculture declined from 266,000 tons in 1984 to 188 tons in 1985.<sup>8</sup>

3. Deterioration of the main objects of labor. There are four main objects of labor categories: farmland, forestland, and grassland; seeds, breeding animals, and breeding poultry; agricultural pesticides and fertilizer; and livestock fodder. These may be characterized as in short supply and below par, and the trend is toward a regression of the means of labor, which will lead to a worsening of soil performance. Not only will the amount of cultivated land decline to 1.03 mu per capita by the end of the century, but drainage and irrigation facilities will be damaged, and machine cultivation will change to animal-powered and human-powered cultivation, resulting not only in a decline in the labor productivity rate, but also leading to a thinning of the organic soil layer, damage to the soil structure, and a weakening of ability to resist natural disasters, the amount of medium- and low-yield fields accounting for two-thirds of the total. China's farm crops are characterized by few premium varieties, slowness in updating, serious mongrelization and degeneration, and only 10 percent of

livestock and poultry being premium breeds. In 1985, only 1.45 million tons of blended livestock feed was produced. This was only 1.8 and 2 percent respectively of the amount produced in the United States and the USSR, and 70 percent of it was of inferior quality as well. Chemical fertilizer is scarce, of poor quality, and its utilization rate is low. Seventy percent of it is low concentration fertilizer of low effectiveness such as developed countries no longer use. Its utilization rate is only around 30 percent, while in developed countries the utilization rate is generally 50 percent. Output of agricultural pesticides declines year by year. During the Fifth 5-Year Plan period, 490,000 tons (100 percent effectiveness) was produced. During the Sixth 5-Year plan, production fell to 364,600 tons; in 1987 it fell again to 260,000 tons; and 1989 plans called for the production of only 200,000 tons. All sorts of diseases and insect pests infest wide areas, causing the annual loss of approximately 10 percent of the grain crop, a whopping 80 billion jin, and 20 percent of the cotton. Ten percent of hogs in inventory die from disease (the world average is 3 percent), and 20 percent of poultry and 8 percent of sheep and goats die.<sup>9</sup>

4. Qualitative improvement and quantitative worsening of organizational methods. The contracting of land by families under the two-tier farming system is a superior form of organization in terms of the quality (attributes) of key productivity elements. This is a notable achievement from 10 years of reform and, because of China's circumstances, it is also a basic form of organization that will be applied for a long time in the gradual movement toward modernization. Nevertheless, looked at in terms of the quantitative organization of all key elements, and the organization of space (land), it is clearly a poor form of organization. Because of the large number of people relative to available land, and the average amount of land contracted, each household has only 6.7 mu cut up into nine or 10 plots. Such a quantitative mismatching produces four bad results as follows: First, it makes impossible the use to full advantage of the existing role of labor, the means of labor, and the objects of labor; second, it prevents the use of advanced implements, leading to regression in farming capabilities; and third, the narrow purview makes it objectively able to be only a subsistence-style natural economy that lacks the motivation and the pressure to seek the benefits of a commodity economy. Fourth, an even more serious consequence is that no subjective motivation and no objective conditions exist for the use of advanced equipment and techniques. Thus, from this standpoint, the family farming system is a factor preventing the development of productivity. We cannot talk in general terms about which developed countries also do family farming without reference to the special quantitative characteristic of agriculture in China. It is necessary to know that a family farm in France has 382.5 mu of land, 337.5 mu in Ireland, 260 mu in West Germany, 217.5 mu in the Netherlands, 432 mu in Denmark, and 204 mu in the EC. One can say with certainty that unless China changes its use of primitive farm tools in farming by hand, and its

extremely narrow subsistence form of agriculture, both the nature and the level of agricultural productivity is bound to stagnate at a backward state for a long period of time. Although historical effectiveness must be affirmed with regard to the family contracting system, it is also necessary to realize the limitations in development of this system, retaining its superior qualitative organization, but gradually changing its inferior quantitative organization. Practice has demonstrated that a successful method is a gradual change to family farming on a proper scale. This is by no means either a negation or a change of the family contracting system, but rather a perfection and an improvement of the family contracting system. It is not a negation of the results of reforms during the previous period, but rather an advance in and a deepening of reform.

Looked at in terms of methods of changing the reproduction process, although quite a few reforms during recent years in the marketing of agricultural products, the supply of agricultural means of production, and prices centering around the two track system have produced a certain effect, overall results have not been great. Three big problems remain, namely, a shortage of the means of agricultural production, distortion of prices of industrial goods relative to agricultural produce, and poor development of the commodity circulation mechanism. This has generated numerous difficulties in the replacement of key materials in productivity and in the compensation of value, which makes smooth reorganization difficult, and a reorganization to expand reproduction even more difficult.

**B. The "Failure To Move Ahead" on the Key Elements of Materials and Skills in Productivity Is the Main Reason for the Inability To Move Ahead in Agriculture**

The foregoing analysis shows that one should not suppose that peasant apathy is the main reason for the inability to move ahead in agriculture. However, in most rural areas of the country, agriculture remains the main way to earn money, so inasmuch as there is "no alternative," or when one is "forced," the family contracting system remains effective in stirring peasant interest in farming. The nationwide competition to buy, panic buying, and even not hesitating to buy large amounts of fake chemical fertilizer, fake agricultural pesticides, and fake premium seeds at high prices provides powerful testimony to this. Can this be blamed on peasant apathy? Agricultural production is a process of material energy conversion that includes inputs and conversions in the form of animate labor, and in the form of materials and skills. Practice in China during the 10 year period 1976 through 1985 shows that the increased output of grain was very clearly directly related to increased inputs of chemical fertilizer, farm machines, electricity used in agriculture, and fuel used in agriculture, the correlation coefficient averaging 0.9 or more.<sup>10</sup> During recent years, however, the country's industries that supply things for agriculture have languished or even shriveled, leading to an inability to move ahead with, or even a retrenchment

in, the key materials and skills required for productivity. This is the main cause-and-effect reason for agriculture's failure to move ahead.

**C. The Decisive Factor in Achieving Agricultural Development Goals Is Huge Improvement in the Materials and Skills Required for Productivity**

China's total grain output will have to increase from 400 million to 500 million tons by the end of the century, so even if the grain field area is maintained with no decrease, the present growing area [zhanyong mianji 0594 3938 7240 4480] will have to produce yields of 450 kilograms per mu or more, and the area sown will have to increase yields from the 235 kilograms of 1987 to 300 kilograms.<sup>11</sup> Of course, China has some potential, but in addition to making the peasants interested in farming, stupendous improvements will have to be made in material equipment and corresponding technical measures. According to the analysis of Minister of Agriculture Comrade He Kang, for every 100 billion jin of increased grain production capability, an additional increase of 15 million tons of standard fertilizer, 50 million horsepower of farm machinery, 13 billion kilowatt hours of electricity, and 1.3 million tons of fuel will be required.<sup>12</sup> According to State Council Rural Development Research Center, and Chinese Academy of Agricultural Sciences calculations, reaching the development goals of 500 million tons of grain plus cash crops will require the use of 32.65 million tons of chemical fertilizer (scalar quantity) in a 91.7 percent increase of the 1987 annual production of 17.03 million tons. Furthermore, a change in the ratio of nitrogen, phosphate, and potash from the 1:0.2:0.002 of 1986 to 1:05:0.25 will require the large scale construction of new phosphate and potash fertilizer industries. This could boost grain output by 10 percent, i.e., 40 billion jin. The growing of two crops of superior varieties over a larger area could increase output between 10 and 20 percent, i.e., approximately 40 billion jin. These two improvements alone could boost output by 100 billion jin. Naturally, corresponding improvement of plant protection, guaranteeing good drainage and irrigation, and intensive farming would also be required. Total farm machinery power would have to be increased from the 336 million horsepower of 1987 to 500 million horsepower in a 48.8 percent increase. Electricity for agricultural use would have to be increased from 65.9 billion to 91.9 billion kilowatt hours in a 39 percent increase. Agricultural pesticide output would have to be increased from 263,000 tons to 450,000 tons in a 73 percent increase. We estimate that if plastic mulch were to be used on 100 million mu of grain fields, yield increases of 150 kilograms per mu would be possible, meaning an increased output of 15 billion kilograms. However, this would require 8900,000 tons of plastic sheeting.<sup>13</sup> In short, unless changes are made in these key materials and skills, even were the peasants more interested in farming, a rise in productivity to a new level would be extremely difficult.

### III. Make the Transformation of Family Farming Technology the Strategic Theme for the Transformation and Development of Agriculture for the Second 10 Years

#### A. Need To Use the Deeper Understanding of the CPC Central Committee as the Basic Guiding Thought in Determining a Strategy for Rural Reform and Development

Prior to the time of rural reform, the main policy strategy used for the development of agricultural productivity was flawed in that it placed too much emphasis on the revolution in production relationships to the repeated neglect of the revolution in productivity, twice missing historical opportunities. The first time was in 1956 after formation of basic level cooperatives for the transition from individual ownership to collective ownership of land. Had the main direction of attack been shifted to the technical transformation of agriculture, agricultural production would have been a different story. The second time was following readjustment in 1962. Had there been solid reform of material and technological conditions instead of the large scale practice of ultra-leftist Dazhai-style system revolution, things would also turned out differently. The decisions on rural reform taken at the Third Plenary Session of the 11th Party Central Committee at the end of 1978, which profoundly summarized the lessons of experience, solemnly noted that "We are determined to concentrate energies on the technical transformation of agriculture to develop agricultural productivity, using the collectivization of agriculture as a basis for the technical transformation of agriculture. This is our party's fundamental line on the agricultural question, that can never be forgotten." This marked a historical change in the party's guiding thought about the agricultural economy. In devoting firm attention to system reform, Central Committee Document No 1 of 1983 also pointed out that three reforms must be made in order to build the country's agriculture, namely, reform of the economic structure of agriculture, system reform, and technical reform." The report of the 13th Party Central Committee in 1987 noted explicitly for the first time a strategy of placing science and technology in the prime position, saying pointedly with regard to the lack of progress in agriculture that "Without scientific and technical progress and scientific management, it is impossible to produce sufficient grain and other farm products on limited cultivated land, and impossible to maintain the current level of food and clothing when population is increasing steadily, much less to talk about moving forward to a higher comparatively well-off level." In March 1988, Comrade Li Peng profoundly noted in his Seventh NPC government work report that "the basic way out for China's agriculture lies in a change from traditional agriculture to modern agriculture. Both construction and reform must have economic returns as their central theme for steady promotion of advances in science and technology, and the improvement of modern management." This should be the "point of departure and the point of return" "for construction and reform," further attention given to major contradictions in the redevelopment of agricultural production, with basic

methods for solving these contradictions being proposed. This was not talked about previously, and it was a further party deepening of theories and policies toward agricultural problems and reform problems. Regrettably, for various reasons and as a result of various difficulties, we did not unswervingly follow through on this key strategic shift in actual rural reform and development work; we did not formulate and implement specific vigorous policies and measures, and thus we lost a fine historical opportunity once again. After the bumper harvest in agriculture of 1984, had we transferred the emphasis of reform and development to technical transformation, very possibly four consecutive years of inability to move ahead would not have occurred. Talk about mistakes; this was the most serious mistake in agricultural reform.

#### B. Make the Technological Transformation of Family Farms the Intermediate Goal in Agricultural Reform and Development

1. Decide promptly and resolve to conduct a strategy of using science and technology to build agriculture. The first 10 years of reform of China's agriculture showed magnificent achievements of historical significance. It was during this period that basic organizational means were found and generally applied to the family contracting that was so helpful to the development of productivity. Family farming should be used as a basis for further technical transformation. This should be the strategic theme for the next 10 years. Efforts should be made for 10 years so that by the end of this century, China's agricultural will have fundamentally changed from traditional agriculture to modern agriculture. This is not only a policy for treating the roots of the problem that removes the inability to move ahead, but it is also the way in which to build modern agriculture. (2) Technical transformation will additionally require new reforms, and the comprehensive application of policy measures. The most important component in technological reform is the biological revolution, the chemical revolution, and the power revolution for expansion of agricultural productivity. However, success in technical transformation will require that labor possess subjective enthusiasm and objective conditions, and this will require finding attendant organizational means and change-over means. In short, large scale transformation will have to be the main line, simultaneously giving impetus to the substantive development of intensive agriculture, agriculture on a proper scale, and commodity-producing agriculture. This should be the intermediate strategic goal for the reform and development of agriculture.

#### C. The Policy Emphasis in the Technical Transformation of Agriculture Is the Creation of Four Mechanisms

The key problems to be solved in reform are the fostering of effective operating mechanisms and social conditions to bring about the technical transformation of agriculture. The most important government action is central

government formulation of completely systematic policies, rules and regulations, and measures for the technical transformation of agriculture such as were drawn up for promotion of the contract system, mostly for the creation of four mechanisms as follows:

1. An input mechanism for equipping agriculture with advanced technology. A glaring problem today is that despite the rather ample scientific research and educational forces in agriculture, they do not shoulder the task of spreading techniques. The system for promoting agricultural techniques is extremely weak. The former four level promotion system has "snapped lines, a broken network, and scattered personnel," and a new system has not been established. A promotion system is an indispensable bridge for translating scientific and technical transformation into real productivity. A firm decision must be made to change the foregoing abnormal state of affairs.

a. Major surgery should be performed on the existing system in which scientific research, education, and promotion are divorced from each other for a transformation of the three-in-one system. In addition to continuing to implement reform policies that have already made their appearance such as the "two invigorations," and the organization of scientific and technical personnel to contract the promotion of scientific and technical projects, it is recommended that scattered, short-term, and campaign-style actions be routinized and systematized. Technical promotion departments should be established in every agricultural academy or college, and agricultural research agency with professors in various specialties rotated to rural areas to promote technology, simultaneously bearing responsibility for teaching, research, and promotional work. This will require reform of the organizational set up, allowances, and organizational forms.

b. The state should be responsible for bolstering technical promotion organizations at the township (and town) level. Since the technical skill of the peasantry everywhere is low, the peasant's own technological research and promotion organizations should naturally be supported; however, if one supposes that "peasant operation" obviates the needs for "official operation," and that technical transformation can be realized solely through reliance on the peasants, that is obviously a dangerous illusion. On the contrary, every township and town should establish "officially operated" overall farming, forestry, animal husbandry, aquatic products, and machine promotion organizations, making them a formal part of organized national endeavors. This is the only way in which to open the way for graduates of agricultural institutes and colleges to go to the grassroots to work, and the only way to change the shortage and the waste of technical personnel in agriculture whereby large number of talent people "shift out of agriculture," and the creation of an abnormal inverted pyramid structure. In addition, governments at all levels should allocate funds and provide needed equipment to change the situation of "only being able to train soldiers who lack

the power to wage war," using only the backward method of relying on mouths to promote technology.

2. An advanced technology application mechanism. The peasants are carriers of science and technology. Only when science and technology is transformed into peasant economic activity can it become productivity. In view of the nature of agriculture in China, different actions should be taken to effect this transformation as follows:

a. In agricultural areas in which farming is mostly done by small families, family farming on a proper scale cannot be instituted quickly; therefore, the emphasis should be on the promotion of small scale technology-intensive, and labor-intensive farming techniques such as horticultural agriculture, mulch agriculture, and three dimensional agriculture [liti nongye 4539 7555 6593 2814].

In fairly well-developed nonagricultural rural areas, policies should be decisively applied to promote family farming on a proper scale. This will require the setting of a strategic direction for the organizational form of agricultural production in China. The policy enunciated in CPC Central Committee Document No 5 (1987), which said that "unless otherwise prescribed, those who engage in other occupations for long periods of time, themselves not farming the land, should, in principle, return contracted land to the collective or, following approval by the collective, transfer the contract to another," should be further clarified and further amplified. It is recommended the following policy provision be added: The following five categories of concurrently employed workers should give up their responsibility fields: those who have been employed in nonagricultural occupations for a long period of time and who have a steady income; teachers in nonofficial schools and rural medical doctors; the dependents of cadres, workers, and teachers who do not know how to farm; families contracting orchards, and pasturelands; and those who allow contracted land to lie fallow. Bids should be invited for the land thus given up to concentrate contracting in the hands of those able to farm. The equal right to contract land should not be emphasized either in policies or propaganda; equal contracting rights should not be institutionalized.

b. Strong measures must be adopted as a long-term strategy for solving the problem of the rural population leaving the land for other employment. This is a basic requirement for the shaping of family farming on a proper scale. China has a rural population of more than 800 million. Cultivated land amounts to 1.67 mu per capita, 7.1 mu per household, and 3.7 mu per able-bodied laborer. Since the beginning of reform, 79 million members of the workforce have transferred into township and town enterprises. Supposedly they "left the land without leaving the countryside," but actually they neither "left the countryside," nor did they "leave the land." This is because under the prevailing dual structure policy for household registration and grain ration supply, they cannot abandon cultivated land, much less

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can they withdraw from grain ration fields. This is tantamount to not being able to transfer away. Worse yet, an additional 7 to 8 million workers will be added to the workforce each year for the next several years. A review of practice during the past several years shows that, from a long-range standpoint, the policy of "leaving the land but not leaving the countryside, and going into factories without going into cities" has not truly helped bring about the movement from the land of a large part of the workforce, and a change in the backward situation of a cleavage between the city and the countryside. This requires re-examination.

3. An equipment mechanism. Industries that supply the agricultural means of production, which have always been weak in China, are currently withering away again, and this is becoming a major factor that seriously limits the development of agricultural productivity. Unless a decision is made to change this situation, the modernization of agriculture can only be armchair theorizing. Today, when China's industrial system is on a fairly solid footing, development of such industries requiring ordinary technology to supply agriculture must be done. Industrial policies for the development of industries to supply agriculture must be re-examined and formulated.

4. Mechanisms to insure the flow of commodities for exchange of equal value. It is use value that society asks the peasants to provide, but it is realized value that the peasants seek. The country's commodity flow and exchange system, and its price reform should be such that all industries can earn an average rate of profit, and policies should be drawn up that enable peasants to make a greater profit than the average for the industry through technical progress. This is the only way in which to insure and to stimulate producers to seek technical progress. In recent years, the price of plastic mulch has gone from 2,400 yuan to 6,000 yuan, and even as much as 10,000 yuan, per ton. Use of plastic mulch to grow grain crops returns a negative profit, thus stifling technical progress! Price policies such as this that are disadvantageous to technical progress should be changed with all possible speed.

### Footnotes

1. *China Agricultural Yearbook*, 1988. Meat output does not include poultry.

2. According to Statistics From *China Agricultural Yearbook*, 1988; *China Statistical Yearbook*, 1987; and *WORLD AGRICULTURE*, Second and Third Quarters 1989.

3. *Complete Works of Marx, Engels, and Lenin*, Volume 23, p. 203.

4. Chinese Academy of Agricultural Sciences Information Institute: *Status of the Modernization of Chinese Agriculture, and Comparison of Chinese and Foreign Agricultural, Animal Husbandry, and Fishing Industry Economic Statistics*.

5, 7. *China Agricultural Yearbook*.

6. *RURAL ECONOMY AND SOCIETY*, Second Quarter 1989.

8. Chinese Academy of Agricultural Sciences Information Institute, NONG MU QINGBAO YANJIU [FARMING AND ANIMAL HUSBANDRY INFORMATION RESEARCH], special edition on "The Technical Transformation of Agriculture."

9. *Ibid.*

10. *Ibid.*

11. *LIAOWANG* [OUTLOOK] Issue 22, 1987.

12. *Study of Problems in the Development of China's Grain and Cash Crops in 2000*.

### Greater Effort To Complete Cotton Allocation Urged

90CE0240B Beijing *JINGJI RIBAO* in Chinese  
26 May 90 p 1

[Article by *JINGJI RIBAO* commentator: "Make Every Effort To Complete the Cotton Allocation and Transfer Task"]

[Text] The production and circulation of cotton have a direct impact on the overall economic situation. Cotton plays a critical role in the national economy. Besides being needed in the light industry, chemical industry, military projects, and for medical purposes, cotton is pivotal in the textile industry: In 1989, state-run textile businesses employed 8 million workers; their GVIO [Gross Value of Industrial Output] was 133.8 billion yuan, and if we add the township textile enterprises' 204 billion yuan production, the industry accounted for approximately 10 percent of the national GVIO; it delivered around 15 billion yuan in profit taxes; its exports earned \$13 billion in foreign exchange, accounting for 30 percent of all foreign exchange earned through exporting, and it is a mainstay industry in foreign trade. For these reasons, to improve cotton production, purchase, and allocation is not just an economic matter but is also a necessity in ensuring social stability.

If we look at the cotton supply situation, China's cotton production has stalled for the last five years in a row. Last year, because of reduced seeding area, because of fairly serious natural disasters in the key production regions, and because plans were revised late in the season to harvest cotton early and plant wheat instead and so on, total output fell to only 3.79 million tons. Total purchase also was cut. Industrial and commercial inventories are down to the point where there is little room for maneuvering.

From the demand perspective, because there has been a rash of new textile mills everywhere in recent years, there are as many as 35 million spindles at work around the

country. Nationwide, the state-planned mills are operating an average of about two-thirds of the time out of the year. In the most recent period, especially, cotton allocation between provinces has been very sluggish. In regions that need to transfer in cotton, a sizable number of the mills have to shut down while waiting for raw material. For this reason, making an effort to complete the cotton allocation task according to state plan and speeding up the allocation process seen as the key to resolving the present supply-demand conflict. To fulfill this year's cotton allocation task, we need to focus on the following three areas:

First, we must seek unity of thinking, reinforce the concept of looking at the whole situation, and rise above self-departmentalism. In his major speech last year, Comrade Deng Xiaoping stressed that in difficult times, we should put more emphasis on the role of, and do a little more, planning. In other words, the part must be subordinated to the whole, and the localities must yield to the central authorities; we must proceed from the interests of the whole. Cotton allocation and transfer are a part of the state's mandatory plan. Governments at all levels and all departments concerned must work diligently to carry it out. In fact, the state's cotton purchases are far from sufficient to satisfy the needs of the country's spinning capacity. The state's cotton supply plan only meets the minimal need to sustain production. If both the production and marketing regions would tighten their belts for a while, we will be able to weather the temporary hardship. This year's cotton allocation will be faced with many adverse elements. The transfer-out regions are facing reduced output, and because they have set up some small textile mills of their own, they are "under-fed" themselves. As for the transfer-in regions, especially the coastal mainstay enterprises and exporters, half the mills have stopped production in some localities. If the allocation continues to move slowly, or if the plans remain unfulfilled, it is possible that there will be massive shutting down in the next few months. This will hurt the whole economy. Under the circumstances, it is especially important that we show character, plant our foothold on the nation, take the interests of the whole into consideration, and strive to complete the allocation task.

Second, we must implement the state's measures and make every effort to surmount difficulties and fulfill the state's transfer-out contracts. We must do our best to fulfill the allocation plan already handed by the state. Provinces facing production-cut and reduced crop yield should try to use less cotton locally to complete the transfer-out task and help out the coastal mainstay mills for the sake of the country as a whole. We should make sure that the plans are being fulfilled. If the state contracts are not being completed, cotton supply to the extra-plan mills should be halted. We must not allow a situation where the state plan is not fulfilled but local small mills and extra-plan mills are "well-fed" to happen. Some localities have not been reporting or have been under-reporting the amount of cotton purchased.

All localities should be more aware of this situation. No unit or individual should under-report purchases or hold back cotton for their own use. Violations should be dealt with severely.

Third, we should make sure that the responsibility system is being implemented. The cotton allocation plan is a part of the state's mandatory plan, and fulfillment should be guaranteed. The State Council has made clear that cotton allocation, like grain allocation, is the responsibility of the governors and mayors. Plans handed down by the state should be parceled out to the lower levels and carried out to the letter. We should make inspections prefecture by prefecture, county by county, to make sure that the plans are being implemented and to supervise their completion. If the leading administrative cadres of every province, prefecture, and county would take responsibility, the state's allocation plan can be completed.

We should also pay attention to balancing the textile industry's production. We should plan ahead and keep track and draw up a comprehensive plan for the whole year. We should use more synthetic fiber in production and encourage the substitution of other fibers. Today, we have a fairly large stockpile of lamb wool and rabbit hair; ramie is abundant too. If these noncotton materials can be put to full use, it will help solve much of the problem.

Of course, from the point of the macro situation, the key to easing the cotton supply-demand conflict still lies in increasing production. In view of the scarcity of farmland, a crucial way to increase production is to rely on modern technology to increase the per unit yield. If the governments of the cotton-producing regions would provide stronger leadership, and if we complement that with the right policies and measures to mobilize the cotton-growers' enthusiasm, we will be able to revive the stagnant cotton production and balance cotton supply and demand before long.

#### Spring Crops Acreage Expanded

HK2806104390 Beijing CEI Database in English  
0916 GMT 28 Jun 90

[Text] Beijing (CEI)—China has increased areas sown to spring crops this year, according to the State Statistical Bureau.

By mid-May, the statistics show, the country has grown 9.3 million hectares of early-ripe rice, 70,000 hectares or 0.7 percent more than last year; and spring wheat growing area this year in China was 4.77 million hectares, 8.7 percent or 383,000 hectares more than last year.

Cotton acreage in 20 production bases this year was 4.8 million hectares, 107,000 hectares more than the same period last year, according to the statistics.

The area sown to sugar-bearing crops was 1.58 million hectares this year, about 150,000 hectares or 10.4 percent more than the same period last year.

**Guizhou Commodity Grain Centers**

OW2106134290 Beijing XINHUA in English  
0702 GMT 21 Jun 90

[Text] Beijing, June 21 (XINHUA)—Southwest China's Guizhou Province has set up 20 commodity grain centers in 20 counties since 1985 with an investment of 80 million yuan (about 17 million U.S. dollars).

**Jiangsu Province Predicts Good Harvest**

OW1806065790 Beijing XINHUA in English  
0536 GMT 18 Jun 90

[Text] Nanjing, June 18 (XINHUA)—Jiangsu Province in east China is expected to harvest about 11.5 billion kg of summer grain this year, 10 percent more than last year.

Liu Jian, deputy director of the provincial Department of Agriculture and Forestry, said the area planted with summer crops in the province has expanded by 20,000 ha this year.

**Inner Mongolia Reports on Reservoir Projects**

SK2106064390 Hohhot NEIMENGGU RIBAO  
in Chinese 26 May 90 p 1

[Summary] The Hongshan Reservoir is located in the middle reaches of Laoha He, a tributary of Liao He, and is the largest reservoir for comprehensive utilization in our region. Its storage capacity is 2.56 billion cubic meters, and it covers a drainage area of 24,486 square km. Since 1965 when the reservoir officially went into operation, it has undertaken the flood-control and irrigation tasks for more than 2 million people, more than 6 million mu of farmland, and five trunk railways in the 11 cities and towns, including Tongliao, Kailu and Zhengjiatun, in the lower reaches of the river. In the use of its water energy, power generating units with the capacity of 670 kilowatts were installed to generate 9 million kilowatt hours of electricity a year. The reservoir also provides 145,000 mu of water area for fish breeding. Due to aging and ever serious deposition of silt, the reservoir was named as one of the 43 dangerous reservoirs of the country. Last year, the Ministry of Water Resources approved the project to improve the dangerous sections of the reservoir to reinforce it with an investment of 21.98 million yuan. The project is scheduled for completion by 1 October 1991.

The Chaersen Reservoir, a key state project for the Seventh Five-Year Plan period, is located in the Horqin Right Wing Front Banner in the middle reaches of Taoer He, a tributary of Nen Jiang, and covers a drainage area of 7,800 square km. Its major purposes are irrigation and flood control, and it is also used in power generation and fish breeding. Its storage capacity is 1.365 billion cubic meters. Its major irrigated areas are the Horqin Right Wing Front Banner of Hinggan League and the Baicheng Prefecture of Jilin Province, totaling 851,800 mu. Power generating units with the capacity of 12,800 kilowatts

were installed to produce 26.6 million kilowatt hours of electricity a year. Construction of the reservoir started in 1958 and 1973, but was suspended due to numerous reasons. Construction officially resumed on 1 May 1987, and the investment totaled 115.8 million yuan. The project includes an earth dam, spillways, and a power station. The dam is 39.7 meters high and 1,712 meters long, and began operation in 1988. Power generation began in 1989.

**Plans Set for Chang Jiang Tree Belt**

OW2406053090 Beijing XINHUA in English  
1206 GMT 22 Jun 90

[Text] Xi'an, June 22 (XINHUA)—After successfully planting shelter forests in its northern areas, China is now developing a tree belt on the upper and middle reaches of the Yangtze River [Chang Jiang].

The plan calls for construction of a tree belt covering 20 million hectares in 556 counties in Qinghai, Gansu, Sichuan, Shaanxi, Hubei, Hunan, Yunnan, Guizhou and Jiangxi Provinces. The whole project will be completed in 30 to 40 years.

The first phase, scheduled for completion in the year 2000, includes planting trees on 6.7 million hectares in 145 counties of nine provinces.

An official of the Shaanxi Provincial Forestry Bureau said the province will plant trees on 1.6 million hectares, accounting for eight percent of the total. Shaanxi has 72,000 square kilometers in the Yangtze River Valley.

The official said that as a result of human activity, stretches of forest have been cut down, causing the deterioration of the environment in the valley.

Since last year, Shaanxi Province has planted trees on 10,530 hectares.

The official optimistically predicted that, by the year 2000, Shaanxi's forest resources will increase from the present 3 million hectares to 3.61 million hectares, the forest area will increase from 41.5 percent to 50.2 percent, and eroded areas reduced from 4.05 million hectares to 3.43 million hectares.

**Shenzhen Plans Grain Storage Center**

HK2506042990 Hong Kong HONGKONG STANDARD  
(BUSINESS STANDARD) in English 25 Jun 90 p 12

[By Cheung Lai-kuen]

[Text] The Shekou Industrial Zone in Shenzhen is going to be developed as a grain storage and food processing center, according to Sun Shaonian the zone's chief engineer.

Mr Sun was speaking after the signing of a land purchase agreement between Hong Kong-listed Lam Soon and the zone.

Mr Sun said Thailand-based Chia Tai Group had signed an agreement with Shekou for the development of seven grain storage and food processing factories in the zone.

Mr Sun said the general agreement had been signed between Shekou and Chia Tai but the project would take off only after the signing of the land purchasing agreement. A 100,000 square metre site has been reserved for Chia Tai, Mr Sun said. He expected the purchase agreement to be signed within the next three months.

He said Chia Tai planned to set up grain barns and processing factories which aimed to complement Chia Tai's other projects in China.

Chia Tai Group has invested in a number of agri-industrial projects in China, such as feedmills and animal husbandry.

The site reserved for Chia Tai is located beside the site bought by Lam Soon for its flour mill. Both sites are located at pier two of Shekou Port.

Mr Sun said Shekou Port had been designed as a food and grain transportation and processing base.

Six berths, with the capacity to handle vessels from 5,000 deadweight tons (dwt) to 60,000 dwt have been built or are under construction.

Mr Sun said China Merchants of the Shekou Industrial Zone planned to build a giant barn in Shekou, also at pier two.

The complex would comprise 40 cylinder type barns with a total storage capacity of 120,000 tons, according to Mr Sun.

#### **Yunnan Grain Prices**

*40060052C Kunming YUNNAN JINGJI XINXIBAO  
in Chinese 6 Jun 90 p 2*

[Summary] According to statistics from 32 grain markets in Yunnan Province, the average price per 100 kilograms of rice, wheat, corn, soybeans, and broad beans during the beginning of May was 120.13 yuan, a 1.8 percent decrease from April.

**Mao, Fortune-Telling Fads Sign of Social Malaise**

90CM0123A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 3, 10 Mar 90 pp 10-11

[Article by Shi Fu (4258 1133): "Thoughts About the 1989 'Mao Zedong Craze' and the 'Fortune-Telling Craze'"]

[Text] The last issue of this magazine explored the reasons for and the trend in the phenomenon of college students' "search for Mao Zedong." Its conclusion was optimistic. But is there likewise cause for optimism about the "Mao Zedong craze" that exists in society simultaneously with this view? A college student presents his personal worries about this—

In 1989, a "Mao Zedong craze" occurred in society. Ever since the publication of a translation of American author and correspondent Harrison Salisbury's book, *The Long March—The Untold Story*, a succession of books about Mao Zedong has appeared, such as *The Chief Bodyguard's Reminiscences About Mao Zedong*, *Desanctified Mao Zedong*, *The Leader's Tears*, and *Biography of Mao Zedong*, which have become hot items snapped up in streets and lanes and on college campuses. At the same time, Chinese magazines such as READERS DIGEST [DUZHE WENZHAI], DIGEST NEWS [WENZHAI BAO], and UNIVERSITY STUDENT [DAXUESHENG], which have large numbers of readers, rushed to either print or reprint articles and reports about Mao Zedong, some of which were naturally also serious theoretical articles about various aspects of Mao Zedong Thought, although the percentage of these was quite small.

Back in the first half of 1989, a craze for wearing Chairman Mao buttons sprang up spontaneously among young people in Liaoning and elsewhere in the northeast. The cultural level of most of these youths was not very high. Some of them were middle school students who regarded the wearing of Mao buttons as a fad, and who scrambled to imitate each other. This craze spread to most parts of northeastern China. Not to be outdone, social youths all over south China echoed the north. In Guangzhou, an ordinary Chairman Mao button was worth 20 yuan renminbi, but there was no lack of buyers even so. What is more, some people sold them for a living. Once when traveling on an assignment, I ran into two young people from Guangzhou who were going to the northeast to buy Chairman Mao buttons. I asked them why they wore Chairman Mao buttons, and they replied virtually without thinking, "There is no why; others wear them, so we wear them too." Some young people were also fond of singing revolutionary songs, particularly *Sailing the Seas Depends on the Helmsman*, which was a hands-down favorite. However, all of the lyrics were changed to make them base and vulgar, exhibiting a gray humor with a strongly sarcastic flavor. The number of "old intellectual youths" who flocked to Chairman Mao's mausoleum to view his remains also

increased markedly. All of this showed that 1989 deserved to be called the year of the "Mao Zedong craze."

There was also another craze in 1989, namely the "fortune-telling" craze, which mounted as time went by. Books on "palmistry," "physiognomy," and "phrenology" inundated the culture market to become hot merchandise at individual book stalls. Having one's palm read or getting one's fortune told through an examination of facial features or bones became the thing to do among the young. Young people sought to find what luck they might have the day after tomorrow within their "preordained fate." Their hope line, money line, and emotion line were of crucial importance. One could tell from their eager look the intensity of young people's concern about their own future. Success in their occupation and luck in life became matters of extreme concern for the young generation. Conversely, young people's interest in their life line declined greatly.

With the advent of the "fortune-telling" craze came another dredging up of feudal superstitions, which ran wild in some places. Fortune-tellers able to predict good or ill luck reappeared in the streets and alleys of cities and towns; activity by geomancers to determine fortune and misfortune became frequent; necromancers able to restore the dead to life held forums, "high priests" of necromancy like "Iron Mouth Zhang" and "Iron Mouth Li" guiding the way through the mysteries of resurrection. In railroad stations, bus stations, and on ship wharves, one saw everywhere underground printed materials of low quality filled with penitent articles about fortune-telling and divination.

Under the dual impact of the "Mao Zedong craze," and the "fortune-telling" craze, Chinese society in 1989 became more and more unimaginable. Were the advent of the "Mao Zedong craze," and the "fortune-telling" craze accidental? What inspiration would this provide people in the future?

The advent of the "Mao Zedong craze" certainly was not accidental.

Mao Zedong, this man of great talent and bold vision and the pride of a generation, deserves to be known as a remarkable leader of that generation. During his lifetime, he was without doubt an illustrious god on the altar built by the Chinese themselves and that he unconsciously built himself, and the earlier deification campaign of contemporary Chinese society elevated him to the pinnacle of the altar. Not long after came the cries of "long live," wave upon wave, each one higher than the last, until finally even he himself could not control them. Chanting of his *Quotations* was ear-splitting and resounded to the heavens, and the *Zhong Zi Dances* [1813 1316 5294] were so intoxicating that people lost themselves in the aura. At that time, all the public broadcasting media's reports pertained to images and incidents from this political life. In such a political climate, people were simply not permitted to provide a

realistic depiction of his personal life. Once he passed away, after several twists and turns, people awoke from the nightmare, yet they found it difficult to get out of the devilish clutches of modern superstition. As an ordinary mortal, Mao Zedong had a personality and temperament of his own, which could not but have an effect on the development of modern Chinese society. At first, out of a psychology of always seeking novelty, people wanted to find out about the "private life" of their own leader. The "Mao Zedong craze" of 1989 satisfied this psychological need to a certain extent. It was a direct reason for the "Mao Zedong craze."

There were also indirect reasons for the "Mao Zedong craze," namely that some social problems in contemporary Chinese society require solution, which engendered a psychology of return to the past. During the past 10 years, China has scored tremendous accomplishments in the building of socialism under guidance of the policy of reform and opening to the outside world, the national standard of living rose markedly from what it had been. Nevertheless, reform and opening to the outside world have also caused some unexpected problems. In the realm of the distribution of social wealth, in particular, these problems are most glaring. For example, the "brain and brawn inversion" in remuneration has become increasingly serious, inequitable distribution becoming a focus for discussion and expressions of dissatisfaction. In a political philosophy sense, the social justice problems discussed deeply perplex people, and have an extremely odious effect on social development. People hope that government will be able to take effective vigorous action to solve similar social problems. However, once certain social problems occur in China, they cannot be readily solved in a short period of time. Thus, while waiting for their solution, people become extraordinarily dejected, agitated, and resentful. Under these circumstances, it is extremely easy for people to have a certain nostalgia for the past, which becomes a kind of social psychology of returning to the old ways. People unexpectedly think about the social atmosphere of the Mao Zedong era, and give themselves over to it. However, the expansion of the antirightist campaign of 1957, and the 10 years of the Cultural Revolution have left different mental and even physical scars on people. Thus, this psychology of returning to the past that exists in society is not truly a desire to return to past years; it aims to compare present realities with the past, the better to solve social problems. We can see from an analysis of the indirect reasons for the "Mao Zedong craze" that it reflects a strengthening of people's sense of political participation.

For reasons exactly the reverse of the "Mao Zedong craze," "fortune-telling" provides people another mysterious spiritual world. It lures people to burrow into this world despite everything to realize a false personal psychological equilibrium. There is no denying that history bequeathed us a difficult problem, namely the people's low cultural attainments. During the 40-year history of development of the republic, we have by no means solved this problem. It is a hotbed for the resurgence of feudal superstition.

Can the "Mao Zedong craze" and the "fortune-telling" craze provide us inspiration?

Without doubt, the 1989 "Mao Zedong craze" played a fairly great role in people's renewed understanding of their departed leader and in bringing his spirit back into the real life of the people. At the same time, the "Mao Zedong craze" will also certainly help scholars studying contemporary Chinese society.

However, one matter of deep concern is that after the Chinese people got rid of the modern deification expressed in the cult of the individual, and overturned the holy altar, does nothing remain but a pile of rubble? Gods come out of people's imagination. No god that transcends reality exists. To go from god to man takes just a step, but our entire race has spent nearly 30 years, close to 100 years, or close to 1,000 years completing this step! Now we see that China's modern civilization has the prospect of leaving the valley for the light. Today, however, after abandoning deification, so many citizens are prostrating themselves anew at the feet of a series of newly fabricated gods whom they are beseeching to dispel disaster and repulse evil, not getting out of the strange clutches of the "gods" after all. Just what does this show! So many fearsome "gods!" Have all the foundations on which holy altars are erected been truly eliminated from the soil of our civilization! Can the remaining rubble be reconstituted? The urgent problem staring us in the face is just how to raise the cultural level of the entire Chinese people. This is the key to China's modernization. The resurgence of modern superstition and feudal superstition provides us a serious warning: The sword of Damocles is suspended above our heads!

The year 1989 is over. Will the "Mao Zedong craze," and the "fortune-telling" craze cool with the arrival of the new year? These are still unknown quantities. But once the craze is gone, shouldn't people calmly think about it? What kind of thoughts will the real social problems that lurk behind these "crazes" arouse in people?

Who knows just what "craze" may occur in Chinese society during 1990?

**Use of Air Power in Modern Limited Wars**

90CM0207A Beijing JUNSHI LISHI [MILITARY HISTORY] in Chinese No 2, 25 Mar 90 pp 37-39

[Article by Chen Hong (7115 3163): "Use of Air Power in Modern Limited Wars"]

[Text] Air power is the overall name for the armed forces' air arm, which has developed very greatly since the end of World War II, and has been widely used many times in limited wars.

The role of air power has steadily increased as military technology and strategic thinking have developed. In the Korean war, which occurred right after World War II, large numbers of jet aircraft were employed for the first time, and aerial warfare involved large air fleets, but mostly the experiences of World War II were followed in the use of air power. During the 1950's, the new technological revolution flourished. Aviation technology and electronics technology saw swift development, and air power entered a new era of high-speed development. Among the various kinds of new aerial weaponry, new-type fighter planes, new types of airborne weapons, on-board electronic countermeasures equipment, aerial early warning command aircraft, and the use of midair refueling aircraft attracted particular attention. The new-type fighters greatly improved air power's combat capabilities. In virtually all postwar limited wars on a fairly large scale, new model fighter planes were used in combat. More than 10 different fighter aircraft took part in the Vietnam war, including the F-4, F-105, and the MiG-21. In Middle East wars, new model aircraft such as the Mirage III, the MiG-23, and the Su-17 were used. The limited wars of the 1980's employed the even more advanced F-14, F-15, F-16, F/A-18, and F-111 fighter planes. All these planes possessed fine performance characteristics. The advanced on-board fire control systems could automatically perform series operations including target detection, firing calculations, tracking and aiming, weapons selection and guidance for a great increase in aerial combat, interception, and ground target attack capabilities. Among on-board weapons, redoubled attention was given to the special combat effectiveness of precise guidance weapons including their hit accuracy and destructive capabilities. In the Vietnam war, the U.S. Air Force used laser-guided bombs on raids against small hardened targets and bridges, achieving an effectiveness that was between 25 and 50 times greater than for unguided bombs. Air-to-air guided missiles became the main weapons used in aerial combat. Modern aircraft such as the F-84E/F-11F extended wing [5706 3240 0370] were of historic significance in the development of combat theory and tactics. Wide use was also made of on-board electronic countermeasures equipment, airborne command and early warning aircraft, and midair refueling aircraft in limited warfare. Skillful use of on-board electronic countermeasures equipment for jamming and deception can intercept the opponent's communications, cause loss of

weapons control, disable command, and block communications, leading to defeat in combat. The use of airborne command and early warning aircraft increased capabilities to keep abreast of the overall combat zone situation at once and to exercise airborne command. It made it possible to integrate one's own airpower with ground and naval combat forces in the combat zone for the launching of coordinated attacks against the enemy. One might say that the swift development of science and technology and the large-scale use of new aviation weapons systems since the 1960's constitute the most important material basis for the marked increase in the role of air power. Practice has demonstrated a marked increase in the role of air power in modern limited wars, which has been manifested in the three regards discussed below.

### 1. Air Power Has Played a Dominant Role in Wiping Out Large Numbers of the Enemy in Land and Sea Campaigns

During World War II and in the period immediately following it, the relationship of air power to army and naval forces engaged in land and sea campaigns was that of a superior and a subordinate, the supporter and the supported. The army and the navy were the main forces, and the air force supported them in combat. The increase in air power combat capabilities has caused a changed in the relationship with the army and the navy to one of equal partnership for mutual support. In modern limited wars, air power has played the dominant role in land and sea campaigns.

The "seek and destroy operations" that the U.S. forces used on the battlefields of South Vietnam were new tactics in which the ground forces discovered and pinned down the enemy and the Air Force wiped it out. The mission of the ground forces was to expose the people's armed forces to airborne attack, and the mission of wiping out and assaulting the enemy was conducted primarily by combat fighters and strategic bombers conducting saturation bombing. This tactic made it very difficult for the people's armed forces in South Vietnam to concentrate men and arms, and even if they secretly concentrated them, they could not do so for long because concentrated men and weapons offered a favorable target for air attacks. Acting in close coordination with ground forces, U.S. air power used antipersonnel weapons to conduct saturation bombing against concentrated Vietnamese forces, often inflicting large casualties on the opponents' effectives, and forcing the Vietnamese Army to disperse into small, hard-slugging operating teams, thereby making it difficult for them to conduct large-scale combat operations. The U.S. Military Assistance Headquarters in South Vietnam said that more than 70 percent of Vietnamese casualties were caused by air attacks. U.S. B-52 strategic bombers could even carry out raids on Vietnamese troop concentrations about 300 meters in front of U.S. ground forces.

In the fourth Middle East war, large numbers of ground-to-air missiles were used in field warfare against aircraft

for the first time. Combat between aircraft and ground-to-air missiles became a main component of land campaigns for the first time. The results of this combat had a decisive effect on victory or defeat in the campaign. Because Egyptian and Syrian ground-to-air missiles effectively controlled Israeli air space at the beginning of the war, their victory in land warfare was ensured, and they frustrated Israeli Air Force support of the ground forces. By the third day of the war, more than 80 Israeli aircraft had been shot down by ground air defense forces. One reason that Israeli forces were subsequently able to turn defeat into victory was that, in coordination with the Army's successful crossing of the Suez Canal, the Air Force destroyed large numbers of the Arab side's ground-to-air missile positions. Forty of 62 Egyptian missile battalions were wiped out, causing the disintegration of the opponent's air defense system and Israel's winning of air superiority. During the large-scale tank warfare on the Sinai Peninsula, the Israeli Air Force destroyed more than 500 Egyptian tanks, or approximately half the tanks that Egypt lost.

During the Falkland Islands war, a total of 29 ships were destroyed on both sides, 40 percent of them by air forces. Lacking coordination with the Navy, the Argentine Air Force engaged the British Task Force alone, damaging 16 British ships in a heavy blow against the British fleet. The 42 British Navy "Harrier" fighter aircraft that took part in this battle made the most of their technical and tactical advantages to score an astonishing 23 to 0 victory in air combat to gain partial air superiority, which played an important role in winning victory in the campaign.

## 2. Air Power Carried Numerous Campaign Responsibilities Alone, and Had a Decisive Influence on Progress in and the Outcome of the War

During World War II, U.S. and British bombings of a number of German and Japanese strategic targets played a major role in hastening the destruction of the fascists. This mission was achieved mostly by strategic air forces. Because of the increased bomb loads that aircraft are able to carry in modern limited wars, and the tremendous increase in their range, not only strategic air forces, but tactical air forces as well can penetrate deeply in the enemy's rear to carry out powerful air raids and independently fulfill numerous operational and strategic missions.

At the outbreak of the third Middle East war, Israel, the only country having tactical air units, concentrated its entire force to deliver a surprise air raid against the main strength of the Egyptian Air Force, which posed the greatest threat to Israel, wiping it out in less than three hours. Thus, it achieved air superiority, ensuring that Israeli ground forces could advance rapidly toward the Sinai Peninsula with no worries from the air, and laying a foundation for victory in this war.

For eight of 12 years in the Vietnam war, the U.S. Air Force wantonly and indiscriminately bombed North

Vietnam, placing communications between Vietnam and the outside world, and communications between the north and the south in an extremely serious predicament, causing severe shortages of ammunition and materiel for the North Vietnamese front, and allowing the U.S. puppet forces in South Vietnam to linger on in a steadily worsening situation for some years. The U.S. air raids, which sometimes used bombings to force peace, and which sometimes used a lull in bombings to entice peace, produced huge material losses and had a tremendous psychological effect on the north.

During the 1982 war in Lebanon, the Israeli Air Force concentrated its main strength, wiping out within six minutes 19 Syrian ground-to-air missile battalions deployed in the al-Biq'a valley, simultaneously scoring a decisive 85 to 0 victory in the air, which caused Syria to accept a cease-fire. This eliminated danger to the Israeli Army's flank, enabling Israel to attack PLO forces without worry and to reach the outskirts of Beirut, greatly accelerating progress in the war.

Experience in the above wars shows that tactical air forces can also conduct strategic missions, and that they have had a decisive effect on both the progress and the outcome of wars.

## 3. Air Power Played a Unique Role and Scored Major Accomplishments in Special Combat Operations

The rapid development of aviation technology, especially the increase in airplane range, and the widespread application of midair refueling, have relatively shortened air combat distances, making it possible for some countries to use air power to conduct special kinds of warfare to achieve certain national political objectives, and to react rapidly to fast-breaking events in other countries, or even on other continents.

It took only three days for the United States to return to the Vietnamese battlefield from the U.S. homeland the tactical air units that U.S. forces had withdrawn there in reaction to the 1972 Tet offensive of the Vietnamese people's armed forces.

When the Soviet armed forces invaded Afghanistan in 1979, large numbers of paratroopers directly boarded aircraft at bases near Moscow to travel 3,500 miles to Kabul, the capital of Afghanistan. On the night of 30 July 1979, Israel loaded commandos aboard large transport aircraft to conduct a raid 4,000 kilometers away on Entebbe Airfield in Uganda in order to rescue personnel being held by terrorists. The long-range strike by Israeli fighter aircraft greatly exceeded their normal combat radius, thanks to the use of midair refueling aircraft and electronic jamming aircraft. The foregoing facts show that the distances over which air power can react quickly are virtually unlimited, and the methods used to react to achieve different goals are also becoming increasingly varied.

The foregoing shows that the role of air power in modern limited warfare is markedly greater than during World

War II and the period immediately following. The air force, which was a branch of service in most countries during World War II has risen to become a service arm on a par with the army and the navy. The use of air power, particularly during the initial stage of a war, has a direct bearing on victory or defeat in the war and the fate of the nation. Study of the important role of the employment of air power in limited warfare provides enlightenment about the building, development, training, and combat role of an air force.

First, it is necessary to improve understanding of the role of air power in modern warfare. This has a bearing on the building and development of an air force, which is to say the airforce's development strategy. One should clearly realize that integrated combat by the army, navy, and the air force will replace warfare by the army or the navy alone. Only by developing offensive air power and waging offensive air war is it possible to make full use of the role of air power. Defensive air power and defensive combat are also necessary. However, purely defensive air power will be unable to fulfill the above combat missions. Therefore, not only does a certain defensive air power have to be built, but some offensive air power must be correspondingly built.

Second, one has to realize fully that the steadily increasing role of air power has led to land and sea warfare theory. During World War II and immediately thereafter, generally an integrated form of warfare was conducted in which mostly land-based air power supported army combat. The 1970's saw the appearance of the widespread use of air power in joint army and air combat operations. During the early 1980's, the air and ground coordinated combat theory of the U.S. armed forces that made full use of the ability of air power to strike in-depth, and the Soviet-espoused large in-depth, three dimensional combat, and war zone strategic campaign theory had one common characteristic, namely the full use of the role of air power in modern warfare, particularly the role of in-depth strike capabilities, maneuverability capabilities, and quick reaction capabilities. Therefore, in building and developing air power, insofar as the country's economic circumstances permit, some airborne command and early warning aircraft suited to battlefield integrated combat operations, pilotless reconnaissance aircraft, armed helicopters and transport helicopters, as well as fighter bombers able to provide close-in air support should be developed, and training should strive to do all possible to improve the integrated overall combat capabilities of all types of aircraft in the air, and of air and ground firepower.

Finally, one should realize fully that with the unprecedented dynamism of fast-breaking events in modern limited warfare, the role of air power is even more prominent. Because of the influence and limitations of numerous political, economic, and military factors in the world today, a world war cannot erupt within a short period of time. Consequently, the ability of air power to react quickly to fast-breaking events in remote areas has

received further close attention. In addition, the development of modern air weaponry, the use of midair refueling aircraft, the increase in combat bomber range, and the increase in bomb loads provide a material basis for such warfare. In some future wars and clashes of the future, "surgical strike" air raids should receive greater emphasis and deeper study.

### Forests Seen Important to National Defense

90CM01844 Beijing ZHONGGUO LINYE  
[FORESTRY IN CHINA] in Chinese No 4, 17 Apr 90 p 3

[Article by Zhao Yaozhi (6392 1031 4249): "National Defense Value of Forests"]

[Text] A forest is an "angel" who creates wealth for humanity. It not only can protect the production and living environment, provide timber and forestry and sideline products, and maintain the ecological balance of the natural world, but it is also of major significance for national defense and strategy.

Ever since war began, forests have been natural protective screens for troop operations. In the Middle Ages Russia's Tulakuoye [0960 2139 7059 0673] Forest was called a "natural protective screen" defending Moscow, and the Tatar people of the Kelimu [0344 6849 2606] region called Russia's forests "gigantic castles." The forests of the Russian region also blocked the attacks and food supply of Napoleon's troops. From the beginning of modern times to the present, the people of many Asian, African, and Latin American countries, in striving for the independence of their countries and national liberation, have used forests to wage long-term guerrilla warfare. In China the Red Army led by Comrade Mao Zedong set up in the dense forest of Jinggangshan the first revolutionary base. "In the dense woods everywhere there are troop quarters for the comrades." These words of the *Song of the Guerrillas* vividly reflect, in the period of the War of Resistance Against Japan, the use of forests by the Chinese army and people for cover in waging an indomitable, heroic struggle against the enemy.

When an enemy makes a sudden invasion, the large area of forests can stop or delay his tank and armored forces, as well as the rapid advance and buildup of his airborne troops, thereby gaining time to put the country on a war footing. The existence of forests increases the complexity of landforms. When troops on the march rest or bivouac, they, with the fendui as the unit, disperse into the woods beside the road, making full use of small forests and bushes and of other surface features and landforms suitable for concealment. An unbroken forest is a green sea, and is most suitable for mobile warfare and guerrilla warfare. Garrison troops and militia, who are familiar with forests, make full use of a forest—this "protective screen"—and can move about with mobility and flexibility and appear and disappear mysteriously to wipe out the enemy. Forests provide conditions for the army and the people to maneuver, and they are advantageous for

fighting the enemy to the end. In wartime the transport of military materiel and personnel is extremely important. If a road passes through woods, military transport can be assured of being unblocked. If bridges or culverts are damaged, timber can be obtained from the adjacent forest to repair them as fast as possible, thereby assuring the transport. On the march, vehicles and artillery pieces can use the branches and leaves of trees as camouflage. Putting military engineering projects, ordnance factories, wartime hospitals, military depots, underground military engineering projects entrances and exits and passages, and other important military facilities in woods, or in a specially structured forest planted in a certain area surrounding them, can make it impossible for the enemy to know their precise locations.

Modern warfare is three-dimensional warfare, and there is no so-called front or rear. The defensive significance of any isolated strongpoint or military defense system has been relatively lessened. Under these circumstances, the army and the people can make use of forests to go into battle, and with a small military force pin down a large enemy force. If the enemy uses chemical weapons, in a forest region it will be fairly difficult for him to find the position of a fixed target. In wartime, if a city suffers a nuclear attack the army and the people in the city can be evacuated to the forests on the periphery, where a temporary living area can be set up. In wartime, if agriculture is adversely affected, or if a certain area, because it is besieged, has its communications blocked and its supply cut off, in the forests there are many substitute foodstuffs, like acorns, bracken roots, haws, yangtao, hazelnuts, Chinese chestnuts, and pine nuts.

Medicinal plants in woods are important medicines for curing wounded personnel. For example, mulberry leaves are efficacious in curing colds and bringing down fevers, and they mainly cure externally caused colds and fevers, headaches and tired eyes. A forest has a huge surface area, and it can filter and block poisonous substances or certain poisonous mucuses. The variety of flora comprising a forest possess a very strong capacity for regeneration. A huge tree destroyed in one year, after half a year or one year, can very rapidly grow again. That U.S. defoliation actions in the forests of Southeast Asia had not the slightest effect is very good proof of this.

Forests can secrete a large amount of antibiotics. It is said that one hectare of dry pinery, in one day and night, can emit several kilograms of pine oil extract, which can detoxify air and water, kill harmful microbes, and inhibit or kill bacteria spread by the enemy. With regard to the four antipersonnel and destructive elements—ray radiation, shock waves, early-stage nuclear radiation, and radioactive contamination—produced by the explosion of a nuclear weapon, forests play a distinct weakening role, and casualties or destruction to personnel and equipment hiding in forests can be lessened or avoided.

China's forest cover rate is only 12.9 percent, and its distribution is very uneven. Therefore, not only must we protect and administer well the existing forests, but also we should, in all places suited for afforestation, adopt the newest technologies to build new forests on a large scale, making a "green fort" that is beneficial to the national economy and the people's livelihood and building a "green great wall" that strengthens national defense.

## REGIONAL

## EAST REGION

**Fujian Holds Study Class on Party Building**  
HK1306022990 Fuzhou Fujian Provincial Service  
in Mandarin 1000 GMT 11 Jun 90

[Text] The Fujian Provincial Party Building Study Class, which is sponsored by the Leading Group in Charge of Party Building Work under the Fujian Provincial CPC Committee, began in the Fujian Provincial Party School today.

Jia Qinglin, deputy secretary of the Fujian Provincial CPC Committee and concurrently director of the Leading Group in Charge of Party Building Work under the Fujian Provincial CPC Committee; Lin Kaiqin, member of the Standing Committee of the Fujian Provincial CPC Committee and concurrently secretary of the Fujian Provincial Discipline Inspection Commission; He Shaochuan, member of the Standing Committee of the Fujian Provincial CPC Committee and concurrently director of the Propaganda Department of the Fujian Provincial CPC Committee; Wang Jianshuang, secretary of the Xiamen City CPC Committee; Comrade Zhao Xuemin; Huang Ming, vice chairman of the Fujian Provincial CPC Advisory Committee; and others attended the opening ceremony of the study class.

On behalf of the Fujian Provincial CPC Committee, Comrade Jia Qinglin delivered a speech at the opening ceremony.

In his speech, Comrade Jia Qinglin said that strengthening study of party building theory is of great importance at present. The CPC and China are now in a crucial period and are facing a series of rigorous tests and challenges. The international reactionary forces are vehemently launching their peaceful evolution strategy against China. Therefore, preventing peaceful evolution from taking place in China is no longer a theoretical, but a realist question facing all comrades. Whether or not all comrades can resist peaceful evolution, withstand the rigorous test, and maintain the political color of the CPC and China depends on whether or not all our comrades can exert their utmost to promote the CPC party building work at all levels. In order to promote the work, it is necessary to strengthen study of party building theory and also ideologically clarify some important theoretical and realistic questions.

Comrade Jia Qinglin pointed out that since the second half of last year, Fujian has achieved some gratifying results in carrying out education in adhering to the four cardinal principles and opposing bourgeois liberalization, and party knowledge among the broad masses of CPC members. However, some in-depth historical questions have yet to be studied. In view of this situation, all comrades in Fujian must exert their utmost to study all relevant party building theory with a view toward eliminating the influence of bourgeois liberalization.

Comrade Jia Qinglin stressed that the 1990's is a period in which Fujian is bound to witness rapid development in its reform and opening up to the outside world. Over the past few months, Fujian's opening up to the outside world has witnessed a favorable turn for the better. Faced with both opportunities and challenges, new developments and questions have also emerged with regard to Fujian's party building work. Therefore, all the comrades concerned in Fujian must conscientiously study these new developments and new questions in light of the realities in Fujian.

Comrade Jia Qinglin demanded that all the comrades attending the study class conscientiously read books, study theory, arm themselves with the basic tenets of Marxism-Leninism-Mao Zedong Thought, and explore and open up new vistas for Fujian's party building work in light of the realities in the province.

Those attending the study class included some members of the Standing Committee of the Fujian Provincial CPC Committee; some experienced veteran comrades; officials of various prefectures, cities, and provincial departments; and comrades with special responsibility for party affairs and party building theory work.

**Jiangxi Cracks Down on Illegal Housing****Statistics Provided**

90CM0239A Beijing JINGJI RIBAO in Chinese  
15 May 90 p 2

[Article by correspondent Li Houxin (2621 0624 0207) in "Today's Topic" section: "Jiangxi Investigates and Punishes Cadres for Illegal Building of Private Housing"]

[Text] The cleanup activities of Jiangxi Province political cadres' illegal building of private housing has made important progress. At present, the basic questions have been cleared up, the major crimes that had aroused intense negative reaction from the masses have been largely solved, the perpetrators receiving severe punishment. The cleanup continues.

The action was initiated in April of last year. Since that time, authorities in the province carrying the confidence of the people with them, seriously and meticulously went about their work which was often difficult.

As of now, in cleaning up 12,018 incidents of illegal building by cadres, they have investigated and finalized 11,074 cases or 93 percent. The total of such unlawful building came to about 289 square kilometers, with a monetary value of 12.8 million yuan. Some 10,307 cases have been completely closed or are about to be, clearing out 198 square kilometers of land and restitution made at about 7.367 million yuan. Organized punishment against the offenders has begun. Various party and/or government punishments of varying degrees were given to 188 cadres, 25 of which were turned over to the Ministry of Justice to be dealt with according to law. A

Mr. Qi [334], an investigator of the Xinyu Discipline Investigative Committee (grade of assistant), applied in December 1987 (when he was secretary of the Xinyu party committee) for a building permit in Shanggao. He falsely registered for a four-family household using two bogus households (one was a relative) to build a place of about 400 square meters, paying neither a land occupation nor a land use tax. He used more than the amount of low-cost material allowed. When he closed the deal, the building cost was 4,407.79 renminbi. He paid no work administration fee nor industrial-commercial tax. After investigation, he vacated the premises and paid back the needed fees. The Jiangxi Discipline Committee decided to deliver him a serious warning and went after him to pay back all outstanding moneys owed. A Mr. Liu [0491], formerly public safety chief of Dayu and secretary of the party committee, built a private house during his term of office from 1986 to 1988, occupying 149.15 square meters more than he was authorized. In building, he sought and demanded help in using government-owned materials and fixtures as well as transportation to the tune of some 7,900 renminbi. He converted the low-cost pinewood into boards and what he did not use he sold at a profit of 1,377 renminbi. He illegally transported goods 51 times and used public safety personnel over 65 times to water his property. He even used two convicts for carpentry work. He has been stripped of party membership and prohibited from administrative employment for two years. Steps are being taken to recover the rest of the moneys owed.

#### Punishment Seen Vital

90CM0239B Beijing JINGJI RIBAO in Chinese  
15 May 90 p 2

[Article by Bai Zhong (4102 1813) in "Today's Topic" section: "Got To Get a Good Grip on This"]

[Text] I was stunned after having read the article, "Jiangxi Investigates and Punishes Cadres for Illegal Building of Private Housing." To have more than 10,000 cadres build illegally in a single province—how much of the public dole did they rip off? There will be hell to pay if this matter is not seriously investigated and continues to fester.

There is a majestic mountain in Jiangxi, the Jinggangshan. This was our party's first revolutionary base in the second revolutionary civil war. The people of Jiangxi have a glorious revolutionary tradition. During the battle to protect Jinggangshan in 1928, the Red flag waved on high at Huangyangjie, and peasants and workers in the uprising picked up weapons to join the Red Army in battle. Rocks were shells, they lived and ate in the trenches. Think about this. Are these crooked law-breaking cadres betraying the revolution or what!

Total dedication to the service of the people is the basic principle of our party. The cadres are the servants of the people. Some cadres have forgotten the party creed, transforming the power of the people into a means for personal gain. A party member and national cadre in name, but corrupt official in fact, a parasite upon socialism. How can

the masses abide such cadres; small wonder they are enraged! An ordinary peasant family, scrimping on food and clothing, enduring pangs of hunger, must save for eight or 10 years for such housing. Some cadres, as head of this or chief of that, without any effort, can get all the building materials they want, can have a multistory dwelling built, let alone a one-floor house. The masses may not dare to complain openly, but they curse inside.

Investigating and punishing such illegal building is a vital part of clean government. This is the will of the people. Now the masses fear that the measures are not thorough. If the entire nation would emulate Jiangxi and get to the bottom of this with swift determination, all sorts of improper conduct would be swept away, and people's confidence in the party and the party's prestige would soar.

#### Jinan Holds Forum on Sending Cadres to Grass Roots

SK1006121590 Jinan Shandong Provincial Service  
in Mandarin 2200 GMT 7 Jun 90

[Text] From 4 to 6 June, the leading office of the provincial party committee in charge of sending cadres to lower levels held a forum in Jinan composed of vice mayors and deputy assistant directors who had been assigned jobs in various cities and prefectures. The forum summed up and reported on the sending of provincial-level cadres to the lower levels during the past six months or so, compared work experiences, discovered problems, and studied ideas for the next stage of work.

Ma Zhongchen, deputy secretary of the provincial party committee and chief of the leading group in charge of sending cadres to the lower levels, and Tan Fude, deputy chief of the leading group, member of the Standing Committee of the provincial party committee and director of the Propaganda Department, heard reports. Ma Zhongchen spoke. On behalf of the provincial party committee and government, he extended his regards and thanks to all cadres who were sent to the lower levels and their family members.

Ma Zhongchen stressed five points on how to satisfactorily carry out the next step of work: 1. It is necessary to unwaveringly implement the principle that stability is an overriding task. Each and every cadre who has been sent to the lower levels should contribute to stabilizing the overall situation at his own work post. 2. It is necessary to comprehensively implement the party's basic line, always persist in taking economic construction as the central task, correctly handle the relations between the two basic points, actively promote reform and opening up, and continue to emancipate thinking. 3. It is necessary to make overall plans, emphatically point out the important points, and grasp the major contradictions. 4. It is necessary to correctly handle the relations between internal and external factors and boost the enthusiasm of the grass-root units and the original units of cadres. 5. While paying attention to transforming the objective world, it is also necessary to transform the subjective world.

Deputy secretaries who had been assigned jobs in Liaocheng, Linqing, and Qufu Cities and in Boxing and Zouping Counties attended the forum.

### Shanghai Assigns Jobs to College Graduates

OW2406113290 *Shanghai City Service in Mandarin*  
0900 GMT 18 Jun 90

[Text] Job assignment work for college and university graduates in Shanghai Municipality this year is now in full swing. The state's assignment plan for more than 32,500 regular and professional school graduates and 3,500 postgraduates who have finished their courses has been fully implemented. Among those graduates, nearly 15,000 have been assigned to work in Shanghai Municipality. Over 95 percent of them have been assigned to work in specific employment units through arrangements by the various departments, committees, offices, districts, counties, and bureaus.

At present, training for graduating students of the various colleges and universities has started. Beginning in early July, jobs will be assigned to the graduates. The Municipal Bureau for Higher Education recently issued a circular asking all colleges and universities, as well as employment units to conscientiously conduct the work of dispatching and recruiting graduates. The circular also required all colleges and universities to strictly follow the state's job assignment plan for graduates when dispatching them to work. Colleges, universities, and the employment units should take the overall situation into account, conscientiously implement the job assignment plan for graduates which is formulated through consultation. Neither colleges and universities, nor the employment units can change or turn back graduates for assigned jobs without agreement between both sides through consultation. After the graduates have reported for work, the employment units should conduct orientation for them, assist them in solving practical difficulties in their daily lives, and promptly arrange work for them according to the requirements of work and their specialities.

### CENTRAL-SOUTH REGION

#### Guangdong Radio, TV Chief Discusses Media Expansion

HK2006031390 *Guangzhou Guangdong Provincial Service in Mandarin* 0400 GMT 17 Jun 90

[Text] This morning our staff reporter (Lin Yan) interviewed (He Dongcai), deputy director of the provincial radio and television department, on the issue of enhancing the coverage percentage of radio and television in our province. The following is the full text of the interview:

[begin recording] Lin: Director He, could you brief our audience on the coverage percentage of radio and television in our province?

He: The present coverage percentage of radio is 82.4 percent, whereas coverage of television is about 86.3 percent.

Lin: What plan has our province formulated this year in this regard?

He: In accordance with the Seventh Five-Year Plan worked out by the provincial government for developing our provincial economy, by 1990 the coverage percentage of radio and television in our province will reach 90 percent. The third provincial work meeting on radio and television was held this year. At the meeting Comrade Xie Fei explicitly pointed out that enhancing coverage percentage of radio and television must be regarded as a central task in the course of occupying the position of socialist spiritual civilization. By 1990, the coverage percentage in the whole province will reach 90 percent.

Lin: How is progress in implementing the plan of the provincial CPC Committee going?

He: In the course of implementing the plan, the provincial CPC Committee shows its solicitude and support for us. It has allocated funds three times to develop radio and television undertakings in mountain areas. Local party committees and governments have also supported us in terms of funds and manpower. This year 303 television relay stations will be built throughout the province. According to a survey made by the provincial Radio and Television Department, the plan and funds for 86 percent of those relay stations have been acquired. The situation is good on the whole.

Lin: To implement the plan of the provincial CPC Committee, what problems are to be solved now?

He: I think that the following two problems must be solved: First, the plan and funds for 16 percent of the relay stations mentioned above have not been acquired. Efforts are to be made in this regard. Second, various county party committees and governments must truly strengthen the development and management of radio and television contingent in townships and towns, so that the 303 relay stations to be completed this year will operate normally to serve the broad masses of the radio and television audience.

Lin: Thank you. [end recording]

#### Influx of 'Vagrants' Pressures Hainan

90CM0169A *Hong Kong KUANG CHIAO CHING*  
[WIDE ANGLE] in Chinese No 211, 16 Apr 90,  
pp 81-83

[Article by Gu Shi (0657 1102): "Report on the Second Wave of Vagrant Immigration to Hainan"]

[Text] Vagrants Come Gushing Into Hainan Again

Vagrancy in the 1980's was like a muddy stream that ran from the interior to all the coastal cities. It has created serious problems for Hainan Province. In the spring of

1989, 20,000 vagrants came into Haikou. The provincial government made a lot of effort to find a way to "block this stream." The result was that the number of vagrants coming into Haikou, a city of 300,000 people, was reduced to 80,000 a year. However, in 1990, more vagrants are making their way to Hainan again, and these are different people from those that came before.

After arriving at Haikou, I found out that the "second workers migration" to Hainan started on the sixth or seventh day after Chinese New Year. Right now, just at the new pier in Haikou alone, 400 to 500 laborers (at times 1,000) will come in every day. There are more than 30 piers in Hainan, and on an average day 2,000 people come to the province.

#### Many of These Vagrants Are Well-Off and Skilled

Most of the vagrants who are in Hainan this year came from some poorer districts in Sichuan, Yunnan, Guangxi, Zhejiang, Hunan, and Guangdong. But, quite a large number of people came from places that are well-off and open. At the Xingang pier, I saw a group of young workers. They were peasants from Wenzhou and Zhejiang, carrying with them their carpentry tools. One young man with a moustache told me, "We are farmers, but we are not poor. As a reporter you should know the situation in Wenzhou. It is just that I heard Hainan is a great special zone, and it is easy to make money. That's why we come here together, hoping to make a lot of money and go home."

Money making is no doubt the major reason why most vagrants come to Hainan. But some vagrants come to Hainan for other reasons. Here I would like to show you some examples:

#### There Are Many Reasons To Come to Hainan

Vagrant One: Mr. Pang, 28 years old. He has five brothers, so there are enough bread makers in his household. In Guangdong, his family would not be considered poor. But, he is trying to get married. The girl's parents demand that he have ready a television set, a VCR, a refrigerator, and a stereo before they will allow their daughter to marry him. He has come to Hainan with a short-term goal, which is to make enough money quickly so that he can go home to get married.

Vagrant Two: A Zhen. I saw her at the temporary shelter at Xingang pier. She was embarrassed when she told me that she came to Hainan because she had to run away from the marriage arranged by her family. She has eloped with her boyfriend to Hainan.

Vagrant Three: He was ragged and downhearted. He used to work in a small factory in Bobai, Guangxi. He smoked, drank, gambled, and was listed as a "difficult and unstable" person. He thought about making himself into a better person, but was never given a chance. He wandered to Hainan, hoping that a new place might give him a new beginning.

A middle-age man from Guangxi told me, "Everyone says that there is building construction everywhere in Hainan, and that it is easy to find work and easy to make money. This place is supposed to be better than Shenzhen, and it is a second 'little Hong Kong.' The rumor just keeps spreading, and people follow each other here. Mr. Zhou, an older man from Henan said, "I am old and I cannot do heavy work. I heard that in Hainan one can make lots of money just from picking up garbage. I would like to try that."

When we compare this recent "workers migration" to the last one, we can see that most people come with a clear goal, and many of them come as a group. A large number of them come from a few concentrated areas, sometimes almost a whole village will show up in Hainan. Many of these vagrants are skilled workers, and their skills all have regional differences. For instance, most vagrants from Zhejiang are carpenters, while most workers from Dianbai, Wuchuan, and Lianjiang districts in Guangdong are construction workers from urban areas.

These vagrants come with "special skills," but Hainan is not what they have imagined, where they can make a quick buck. I visited Haikou Cannery, Nada Bridge, Jingniu Ridge, the airport, and Xingang pier; places where most vagrants hang around. What I could see were tired and submissive-looking people squatting under a bridge or hiding on a street corner. Some were silent. Some had taken to drink. There were women who wore a dull expression, nursing their screaming babies.

I went to a construction site at a developing district and talked to several vagrant workers from Yunnan. They said they did not know whether they would find work or food tomorrow. On busy Jiafang Road in Haikou, several vagrants from Zhejiang, equipped with carpentry tools and furniture manuals, were waiting for someone to give them work. I understand that there were not many takers.

At a ticket counter at Xingang pier, a young man who was leaving Hainan angrily told me how he was cheated. His name was Zhou, and he was a farmer from Changde, Hunan. A while ago he was working in the field when a man wearing a western suit and smoking an "imported cigarette" approached him. He said he owned a company. He told Mr. Zhou, "Brother, get out and make some money. Don't just stay here and slave. Look at me. I used to work with a hoe, too. In 1989, I went to Hainan, and now... Ha ha." Mr. Zhou was impressed. The next day, he paid this man 350 renminbi and followed him to Xingang pier. As soon as they got to the pier, this man disappeared, leaving Mr. Zhou alone. Zhou was stopped and sent back to Hainan pier in Guangdong. Mr. Zhou was very depressed. Then someone who looked like a fisherman came and told him that for 50 yuan he could be taken to Haikou. Around midnight, Mr. Zhou rode in a fishing boat and was smuggled across. Two weeks after he arrived at Haikou, he still could not find any work,

but his money was all gone. He realized that Hainan was not as perfect a place as everyone had told him.

#### **"A Mei" Was Raped by a "Kind-Hearted Man"**

I found her in the Xiuying shelter for vagrants. She came from a remote mountainous region in Sichuan. With tears streaming down her face, she talked in a monotonous tone and told me her sad story:

"A Mei, why are you squatting here? Aren't you feeling well? The wind is too strong here. Why don't you come to my place and get warm?" At a deserted corner in the airport she had met a "kind-hearted" man.

She had had nothing to drink or eat since she got to Hainan. She didn't think any more and followed the man. He was very thoughtful and made her a delicious meal. She was so hungry that she "cleaned off the table" in a minute. She wanted to pay him, but her pockets were empty.

He seemed to have read her mind. He just smiled and talked to her comfortingly. He even made a bed for her. At midnight, this beast finally raped her.

From then on, she worked for him during the day and slept with him at night, until a few days ago when the public security bureau found out what had happened.

#### **Why Is It That History Keeps Repeating Itself in That We Can Never Be Rid of Vagrancy?**

According to regulations, anyone who comes to Hainan has to have permission from the county government-office level or higher. The Hainan government has set up six checkpoints at the piers in Haikou and other harbors—two in Xingang and four in Xiuying—in order first to stop vagrants from entering and then to deport them. According to statistics, from 3 February to March 1990, more than 10,000 vagrants were deported. Yet the number of people who want to come never decreases. Some of these vagrants are very determined—deported to the other side of the Qiongzhou Strait today, back again at Haikou pier tomorrow. Why is it impossible to stop them from coming?

After some investigation, I found that vagrants can enter the island through various channels. Many fishermen see money in smuggling. They use their private boats and transport vagrants in during the night. During the night of 9 February 1990 the police caught more than 200 vagrants on board a private boat at Xiuying beach. Some vagrants sneak in by getting on military cargo ships because military cargo ships will not be checked too thoroughly. Sailors who work on passenger liners or cargo ships will take bribes to help vagrants go through checkpoints. Having failed to find work in Haikou, individual vagrants put their money together, buy a boat, and start a business smuggling vagrants. All this contributes to the continuous influx of vagrants to Hainan.

The heavy influx of vagrants results in congestion in Haikou, and also affects the outlook, hygiene, food supply, security, and living conditions of the city.

#### **The Pressure on Hainan**

Xu Qingkun, section chief of the public security section of the Haikou police bureau, said to me, "Since 1989, there have been over 2,000 criminal cases, and vagrants were involved in 40 percent of robberies, thefts, fights, and prostitution." An employee from a food store on Haifu Road said that ever since the vagrants arrived, the store has had difficulties stocking up. He shrugged and said: "Right now, one-fourth of the food supply goes to the vagrants."

For the people who guard the frontiers, the heavy influx of vagrants has made their job difficult. The responsibility for catching vagrants falls on the shoulders of the 60 officials and soldiers who are on the front line. They work from morning to night and can hardly cope with the situation. There just aren't enough people to do the job. After the Spring Festival this year, the city police, helped by the business and industrial sectors, the labor department, and the civilian administration, made three raids and caught over 6,000 vagrants. Those caught were sent to temporary shelters, but were refused refuge because there were not enough shelters to house them. What is more, the shelters had only enough money to send these vagrants to Hainan pier, instead of deporting them back to their villages. The result has been a never-ending vicious circle; these vagrants will try every means to turn around and come straight back.

## **NORTHEAST REGION**

#### **Profile of Changchun Discipline Commission Official**

*90CM0132A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 16, 16 Apr 90 pp 12-13*

[Article by Chen Mingxing (7115 2494 2502): "Meticulously Forging the Link With Ties to the Masses—Remembering Li Zhonghou, Secretary of the Discipline Commission of Suburban Changchun"]

[Text] "As Communist Party members, we must serve the people without reservation, without hesitation, and without false pretenses." So said Li Zhonghou [2621 1813 0624], secretary of the Discipline Commission of suburban Changchun, and thus did he serve.

#### **For 12 Years, the Whole Family Lived in One Room**

Housing is one of the touchiest issues in the minds of most people, but not with Li.

When Li Zhonghou was party committee secretary of Yingjun village, a branch secretary noticed that Li's whole family of six was crammed into a tiny room of about 13 square meters and so he said to Li, "Build a house. I can assign you a lot number, furnish you

building materials, find helpers. All you need to do is nod your head." Li never did nod his head.

Another enthusiastic comrade used connections to buy him a three-room house. Li never accepted it.

Still another bought him a six-room dwelling. Li turned it over to become a livestock station.

And so, Li and his family of six lived in that one room for 12 years. It was not until 1984 that, after repeated urging by superiors and colleagues, he finally moved into dependents housing for suburban agency members. But despite the impending marriage of a son, it was still very crowded for the eight of them to live in that three-room dwelling.

#### All Three Sons Worked in Small Factories

Housing, children, coupons, vehicles, position are called the "five stepping stones," something dreamt about. Yet Li considered these five stepping stones as criteria for testing whether a party member had private or public motive. He said that "public" meant working for the benefit of the masses, and not using party authority for private gain.

He had three sons. Wenli [2429 0448], the oldest, first joined the production team at Yingjun village. When levies for workers and the military were published, he was popularly nominated. But his father thought that although Wenli looked good he did not want to have any speculation that Wenli's father's position as party secretary had anything to do with it, so he held back Wenli's quota. Not long after, Wenli was recommended for a university. Li Zhonghou felt that university attendance was an opportunity much coveted by all. He flatly told Wenli that the "masses want to attend, so we cannot. We can only do those things that the masses do not want to do. As long as I am party secretary, you had better set your mind to doing farm work for the rest of your life!"

The educated youth could return to the cities. Finally, Li was also reassigned successively to do leadership work in the industry and communications department and then the organization department. Wenli was the last to leave Yingjun village.

Some people had thought that, because he was a major "power" element in the urban structure, his three sons would be nicely placed. But the truth was the reverse; all three went where the masses did not want to go. The eldest, Wenli worked as a laborer in a small factory and later was hired as a contract administration cadre solely on his own merit. The second son, Wenzhi [2429 1807], was a laborer in a pollution-heavy chemical industry factory in the suburbs. The youngest, Wenming [2429 2494], today is still working as temporary help in a small cement factory in a distant suburb. Not long ago, knowing some basic technical skills, Wenli was about to be hired by an agency. His rather demanding father stopped it, saying, "My children cannot work for an agency!" In the past seven years, although there had been

plenty of opportunities for temporary work or transfers, Li never said anything. Now, with production stagnated, all three are home "on leave," that is, unemployed.

#### No Public Vehicle for Private Use

Li Zhonghou is inseparable from his bicycle. Despite being over 50 years old, he always rode his bicycle to and from work or when he was on official business. He said that bicycle riding had two benefits: physical exercise and freedom of movement so as to get close to the masses.

In the spring 1988, his spouse had to travel for a gastrectomy. His agency wanted to send a car but Li refused. His colleagues then asked for the date of her return. He told them in eight days, when in actuality he knew it would be six days. When she returned to Changchun, he hired a car at his own expense. In October that year, she needed further surgery for a peritoneal problem. It was now bitterly cold and his agency had two cars that were idle. Nevertheless, he took his wife by bicycle the five li to the hospital.

People moved by him said that "he was not arrogant about his achievements, wielded power not for selfish gain. Although he was in a leadership position for years, he never got any benefit out of it for himself." This is indisputable. In the fifties and sixties, when he was hamlet chief and village chief, he never demanded even a blade of grass from it. In the 1970's, as party committee secretary, and then deputy chief of the suburban industry and communications department, the output value of his region's enterprises led the province, and vegetable production led the nation. But he did not raise a single demand from the nation. In the 1980's, successively as deputy chief of the regional committee Organization Department and then secretary of the Discipline Commission, he was in turn selected as Jilin Province's special labor model and model discipline commission secretary, superior national party worker, national advanced worker, and so forth. But he never took advantage of any of these honors or powers to favor any relative.

#### The True Color of a Party Member Is the Avoidance of Private Interests

Old superiors, old subordinates, old colleagues, old friendships. In the eyes of many, these are rare "treasures" for which people rack their brains to find ways to obtain them. Some undoubtedly use them to get promoted or rich. Li Zhonghou, on the other hand, firmly believes that we Communist Party members must completely break this kind of "old boy network."

Once an old party veteran of over 30 years took advantage of a reassignment to take some friends along on a southern sightseeing trip, splurging several thousand yuan of public funds and creating a very negative impression on the masses.

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Li was very close to him as an old friend. In the past, they had been contemporaries of each other as village party committee secretaries and frequently enjoyed each other's company. Now, their two offices shared the same doorway and they were separated by a mere wall so that they could see each other constantly. Li thought, "He and I are old friends, but that makes me even more responsible. Severity is love, indulgence is harmful." It was vital that the negative impression among the masses be turned around as quickly as possible and that party discipline and disciplining be imposed strictly and quickly.

The upshot was that Li recommended to the party committee which was passed after discussion to warn this "old friend" within the party and notify the entire district of this action. Also, the offender was obliged to reimburse the funds he had spent.

Thus did Li heroically challenge the "old boy viewpoint" within his own area and fight against the "old boy network" in society.

There was a chief of a forestry station at Xinglongshan who exploited his office for corruption to the tune of 1,600 renminbi, evoking a strong reaction from the masses. But this man had thought that since he had "connections" with the district leadership he could get away with it and denied any wrongdoing. The investigation ran into a snag.

When Li Zhonghou heard about it, he got himself assigned to the place. By day, he went about his duties in production. At night, he had talks with the station chief, defined policy, and got to the bottom of the matter. After a thorough bit of work, he cleared up the matter.

Li was bombarded with telephone calls from higher and lower sources pleading for the man, continuously asking for leniency. Li believed the Communist Party did not exist for personal relationships. If it abandoned principle for the sake of such, then it will have departed from its basic nature. So he recommended that the party committee go the road of the masses, launching a townwide party discussion. The upshot was that the collective party concurred with stripping the man of his party membership.

Thus has Li been selfless. Since he became secretary of the Discipline Commission, no one, including those he disciplined, has dissented from his disciplinary actions. It is in him that the masses can see the true quality of the party member.

### Jilin's Meihekou City Cracks Down on Criminal Cases

SK2606040990 *Changchun Jilin Provincial Service in Mandarin 0900 GMT 25 Jun 90*

[Text] The Meihekou City CPC Committee and government have publicized the legal system and have actively launched a struggle to deal strict blows to criminals in an

effort to promote security in society. The Meihekou City work team responsible for dealing strict blows to criminals, in face of the complicated situation in some townships and towns and the upward trend in the outbreak of criminal cases, conducted propaganda on laws and regulations and education among the people by actively conducting propaganda and education on the legal system among the broad masses of people; held a mobilization rally with more than 1,000 participants; used propaganda cars, set up propaganda broadcast stations, the legal system video propaganda stations, and consulting service counters; and organized consulting and service teams. After more than one month's struggle to deal strict blows to criminals, it uncovered 243 law-breaking and criminal offenses, rapidly investigated and concluded some cases, and openly tried 34 arrested criminals, thus dealing an effective blow to crime, frightening evil persons, and enabling the broad masses of people to feel safe in their lives and production and in their social activities.

### Liaoning Works To Improve Welfare of Intellectuals

SK1606022590 *Shenyang Liaoning Provincial Service in Mandarin 0930 GMT 5 Jun 90*

[Text] Since the province's sixth party congress in 1985, a new situation in the province's work concerning intellectuals has taken shape. More than 1 million intellectuals across the province have been able to closely rally around the party, vigorously rouse themselves to make the province prosperous, and have made tremendous contributions to building the two socialist civilizations.

Over the past few years, the provincial party committee, by conducting on a large scale the work of implementing the policy on intellectuals throughout the province, has redressed the mishandled and framed cases against intellectuals and dealt with the problems left from the past. Party organizations at all levels across the province have also addressed the difficulty intellectuals have in joining the party and have promoted more than 15,000 outstanding middle-aged and young intellectuals into leading posts at or above the county level. The work concerning intellectuals and their living conditions has been somewhat improved. Over the past five years, housing problems of 153,000 intellectuals across the province have been handled to varying degrees and the long-term separation of spouses encountered by more than 20,000 intellectuals across the province has also been addressed.

At the beginning of 1988, the provincial party committee and provincial people's government formulated regulations relaxing restrictions on scientific and technological personnel to promote the transfer of talented personnel, under which more than 20,000 talented personnel have been transferred and 8,000 talented personnel have been assigned by the province to singly-capitalized, medium- and small-sized, and rural civilian-run enterprises. Thus,

the province has done better in dealing with the problem of intellectuals working in what they had not majored in.

Since 1986, 1.2 million full-time technical personnel across the province have received relevant titles of technical positions through the reform of professional titles. Among these, 60,000 have received high-level technical positions and 330,000 have received mid-level technical positions. Thanks to earnest implementation of the party's principle of respecting knowledge and talented personnel and earnest attention to the important and serious problems encountered by intellectuals in their work, the provincial party committee has enabled the broad masses of intellectuals to bring their intelligence and wisdom into full play and effectively promote the scientific and technological progress in the province.

Since 1985, scientific and technological personnel across the province have received 48 national level prizes for scientific inventions, 10 national level prizes for natural sciences, 148 national level prizes for scientific and technological progress, and 1,415 provincial level prizes for important and major scientific and technological results and for scientific and technological progress. Of these prize-winning results, more than 70 percent have been used directly in industrial and agricultural production and relevant technologies and have produced 12.4 billion yuan of output value and earned 600 million yuan in profit and taxes.

#### Party Members Viewed as Models for Clean Government

90CM0173A Shenyang LILUN YU SHIJIAN  
[THEORY AND PRACTICE] in Chinese No 6,  
15 Mar 90 pp 5-6

[Article by Gao Zi (7559 1217): "Building of Clean Government Cannot Substitute for Building of Party Style"]

[Text] The building of party style and the building of clean government are issues that the public is currently following with close attention. For some time now, party organizations and discipline inspection units at all levels have been diligently carrying out the requirements contained in the "CPC Central Committee Notice on the Need for the Party and State To Maintain Honesty." They are taking positive action in an effort to solve problems such as the abuse of official position for private gain, the perversion of justice for bribes, extravagance and waste, and extortion and blackmail, making the preservation of honesty in party and government organs and the building of party style a major part of their work, and achieving remarkable results in it. Nevertheless, some comrades still have different foggy understandings today about how to regard the correlation between building party style and building clean government. One glaring example is the "substitution theory," meaning they suppose that since our party is the party in power, the building of clean government is ipso

facto the building of party style. They substitute the building of clean government for the building of party style. This is a problem in ideological perception today that should be conscientiously solved.

First of all, we do not deny a close correlation between building clean government and building party style. As the ruling party, the party holds a leading position in national political life. Honesty in party and government organs is inseparably linked to the existence of party style and party discipline. In a certain sense, the state of party style in party and government organs determines the honesty of party and government organs. This is because more than 70 percent of civil servants in party and government organizations are members of the Communist Party, and most of them occupy leadership positions. Unless party style in party and government organs is upright and party discipline strict, it is very difficult to imagine that a unit can be clean. Likewise, unless the country's political institutions are free from corruption, no doubt the party's image and reputation will be hurt, and the party's cohesiveness and attraction weakened. Therefore, being upright and law abiding are both a component in the building of honest government and a major component in building party style. No hard and fast line can be drawn between the building of clean government and the building of party style.

However, while realizing the correlation between the two, we must also distinguish the difference between them. Building clean government and building party style are, after all, two different concepts. Clean government is an important integral part of the building of political power, the fundamental task and goal of which is maintenance of the character of government personnel as public servants. Honesty is a behavior norm for personnel in government. They are required to be uncorrupt and unbribable in the face of money and material, and not abuse public office for private gain. The building of party style is an important integral part of party building in which the fundamental task is to use Marxism and Mao Zedong Thought to arm the whole party to maintain the political character and the spiritual style and features of the vanguard of the working class. Party style is an attitude and behavior that pervades party organs and the ideology, politics, work, and life of party members. It is an expression of the character and world view of the party in the actions of party organizations and party members. Therefore, there is definitely an essential difference between the building of clean government and the building of party style. However, the main problem today is that very many comrades frequently see only the identical nature of building clean government and building party style, but neglect the differences between the two, or they go so far as to tend consciously or unconsciously to devote attention to the building of clean government as a substitute for the building of party style. But why is it that the two cannot be substituted for each other? Specifically, there are the following several reasons:

First, the people involved are different. The people involved in the building of clean government are mostly civil servants, both Communist Party members and

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non-Communist Party members; while in the building of party style it is organizations at every party level and all Communist Party members that are involved. This means not only party organizations and party members in party and government organs, but also includes party organizations and party members in nonparty and non-government organs such as enterprises and institutions, as well as rural villages. This shows that although, logically, those involved have crisscrossing relationships, they are not the same relationships. If, for example, the building of clean government substitutes for the building of party style, that is bound to mean that all corruption problems involving violations of party discipline in party organizations or among party members outside of national organs will become "dead corners" that no one looks into. However, party members who are civil servants are inevitably only a small portion of the party membership ranks. Thus, in fact, most party members are excluded from the building of party style. Therefore, only by devoting firm attention to both clean government and party style is it possible to encompass all fronts, including both nonparty government agencies and all party members in every position, all of whom can consciously abide by the national Constitution and laws and all of whom are subject to the restraints of party discipline.

Second, the work of the two different groups differs. Central Committee Document No 5 (1988) sets forth three basic requirements with regard to the meaning of clean government, namely that "workers in party and state organs are to apply correctly the powers conferred by the people to act on behalf of the people, conscientiously doing the following: strictly upholding the law and discipline, not perverting justice for bribes; discharging duties impartially, not abusing authority for private gain; and striving arduously, not being extravagant or wasteful." In short, only by adhering to the three "nots," namely not perverting justice for bribes, not abusing authority for private gain, and not being extravagant or wasteful can one basically meet the requirements of clean government. However, the content of party style building is determined by the character of the vanguard of the party's working class. It requires that party organizations and party members strictly abide by the party constitution, consciously accept the restraints of party discipline, maintain and carry forward the party's fine tradition and style of linking theory and practice, closely uniting with the masses, conducting criticism and self-criticism, being modest and prudent, and struggling arduously, performing the role of a combat blockhouse and vanguard model in all work and social life. Clearly, what is involved in building party style is much richer than what is involved in building clean government. If emphasis is placed only on the building of clean government, the manipulation of power for personal ends and dereliction of duty, the extortion and blackmail, the corruption and bribe taking, and such violations of the law and of party discipline on the part of a small number of workers in state organs may be punished, but the subjective work

style that is divorced from the masses and divorced from reality that exists today in the building of party style; the bureaucratic work style of standing aloof from the masses, unconcerned about the travails of the masses; the privileged character work style of engaging in unhealthy tendencies in violation of the interests of the masses; the work style of decentralism and liberalism, not carrying out orders, and not halting what is forbidden; as well as the base work style of being more concerned with appearances than with truth, and being more concerned with maintaining connections than with principles, and such serious matters will obviously be difficult to solve. In fact, these problems of party style cannot be solved by relying on the building of clean government per se. Therefore, in many regards, the content of clean government work and the building of party style cannot be substituted one for the other.

Third, the level of requirements differs. It was said above that the standards required for building clean government are simply not perverting justice for bribes, not abusing authority for private gain, and not being extravagant or wasteful. Being honest, being efficient, observing discipline, and obeying the law are about all that is required to meet requirements. However the point of departure for building party style is somewhat higher. Because our party is the vanguard of the working class, the character of the party determines that our party not only maintain purity, but that it even more express its progressive character. Thus, in the building of party style, this requires that Communist Party members must tailor their words and their actions in accordance with the party program and the party constitution. They must possess unswerving faith in communism, bear firmly in mind the goal of serving the people wholeheartedly, carry on and carry forward the party's fine traditions and work style, and maintain the lofty moral character and sentiments of Communist Party members. They must exercise a model role as a vanguard and positively not stop at the standard of not engaging in corruption or taking more than they are entitled to. If this minimum standard for "preserving one's purity" of not engaging in corruption, not taking what one is not entitled to, and not accepting gifts that applies to civil servants were applied to Communist Party members, it would greatly lower party members' standards. A party member working in a national organ who lives up to the three "nots" as clean government requires, may be termed a qualified civil servant, but he is not necessarily a qualified Communist Party member. To put it more succinctly, if a worker in a state organization is without "faults," that counts as an "achievement," but for a Communist Party members who holds a model role as a vanguard, the situation is just the reverse. To have no positive "achievements" is a "fault." The reason is simple: The level of requirements and standards of the two differ. Furthermore, bourgeois governments and enlightened monarchies also devote much effort to clean

government work, punishing corrupt officials. For example, Hong Kong has set up a special clean government office and Singapore has set up an anticorruption investigation bureau specifically for the purpose of supervising government officials, and emphasizing "separation of public and private life," and "separation of authority and money." Swedish law explicitly provides that government officials may not engage in business. Any citizen who has engaged in commercial activity can hold an official position only after completely parting from commercial life. Our party is the vanguard of the proletariat, so naturally it cannot use the official standards of feudal society and bourgeois society in place of the party's standards. To equate clean government with party style is, in fact, to ignore the more positive role of building party style. Today, it happens that a small number of people regard the standards for clean government as the standards for building party style. Whenever they become involved in a change in duties, they frequently compare the lesser aspects without comparing the higher aspects, and they compare the bad without comparing the good. They say things like, "I was not corrupt, nor did I take bribes, and I did not abuse authority for private gain, nor did I take anything to which I was not entitled," etc., persisting in emphasizing what they "did not" do without mentioning what a party member "should do." It is as though making no mistakes is the same thing as turning in a meritorious performance. The result is that they lower the party program and the party constitution that Communist Party members should follow to the level of "citizens' regulations" that the public follows. Such an abnormal situation within the party must be diligently overcome through rectification of work style.

Since the three foregoing "differences" also exist in the closely related building of clean government and building of party style, the two can only be mutually promoting and mutually useful, but positively not mutually interchangeable. This is particularly true today when our party is facing a grim political situation and carries an unprecedentedly heavy burden. Unremitting attention to the building of party style holds extremely important real significance. Domestically, the two disturbances that took place during 1989 as spring was turning to summer resulted not only from the support provided by hostile international forces and the plots and conspiracies of a small number of people engaged in bourgeois liberalization, but were also closely related to our neglect of party building and overlooking serious unhealthy tendencies within the party. Internationally, there are the forms of struggle of infiltration and counterinfiltration, "peaceful evolution" and anti-peaceful evolution, subversion and countersubversion. Sudden changes have occurred. In some socialist countries of Eastern Europe the political situation is turbulent. In order to maintain our national stability, support and consolidate our party's position in holding power, persevere in a socialist course, and complete the task of improving the economic environment, restructuring the economic order, and deepening reform in this kind of atmosphere and under

these new political circumstances, we will have to resolve to do a good job of party building, genuinely becoming a staunch vanguard of the working class. Therefore, whether looked at in terms of requirements for party building per se or in terms of maintaining long rule and enduring peace in our country, in addition to devoting attention to clean government, we must continue unwaveringly to take firm grip on party style. Actually, a power-holding party that departs from the building of party style for isolated pursuit of the building of clean government is simply attending to trifles at the neglect of essentials. Of course, the task of working for clean government remains extremely important, and a large amount of work remains to be done, but our emphasis of the differences between the two is not to lower the importance of clean government but rather to awaken party organizations at all levels and the broad masses of party member cadres so they do not equate the two. We must devote efforts to the building of clean government while not relaxing the building of party style. Only in this way can we support and advance the healthy development of clean government work; only in this way can we correct and bring to a halt unhealthy tendencies and corrupt practices in the party; only in this way can we restore the party's prestige and revive and develop the flesh-and-blood relationship between the party and the people; and only in this way can we enable our party to obtain the confidence and support of the broad masses of people to stand the test of any storms, remaining eternally invincible.

#### Greater Party Control Over Media Urged

90CM0173B Shenyang *LILUN YU SHIJIAN*  
[THEORY AND PRACTICE] in Chinese No 6,  
15 Mar 90 pp 5-6

[Article by Zhang Zuoku (1728 0146 1655) and Wei Bing (7279 0393): "Bolster the Party Spirit Concept To Improve News Dissemination"]

[Text] CPC General Secretary Jiang Zemin told the press at the Provincial, Municipal, and Autonomous Region Party Newspaper Editors-in-Chief News Work Discussion Group that, as an integral part of our ideology, socialist news facilities must abide by the basic policy of serving socialism and serving the people. At the same time, Comrade Li Ruihuan [2621 3843 3883] said that news dissemination should emphasize positive news. In order to carry out the spirit of speeches by leading comrades in the Central Committee, and so that we can conduct propaganda work that focuses closely on plans for stabilizing the overall situation, developing the economy, and strengthening the building of spiritual civilization, we must further bolster the concept of party spirit to improve news dissemination, thereby enabling news work genuinely to become the mouthpiece of the party, the government, and the people.

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### A. Bolstering the Party Spirit Concept Requires Ideological Clarification of the Following Several Problems

As long as more than 40 years ago, party leaders like Comrades Mao Zedong and Liu Shaoqi applied the Marxist point of view to make an extremely scientific exposition of the nature and mission of party news work. In "Talk to Editorial Personnel of JINSUI RIBAO," Comrade Mao Zedong said that "the basic principle of Marxism-Leninism was to enable the masses to realize their own interests and to unite in order to struggle for their own interests. The role and the power of newspapers lay in their ability to bring to the masses most rapidly and most widely the party's program and line, plans and policies, work tasks and work methods." Following the founding of the People's Republic, in a meeting with some propagandists who had taken part in the CPC National Propaganda Work Conference, Comrade Mao Zedong said that "before the extinction of classes, newspapers, magazines, broadcasts, and news agencies all have a class character, and they all serve a specific class." It should be said that the party principle that news work is the mouthpiece of the party, the government, and the people, has always been extremely clear to our party's news endeavors. In recent years, however, as a result of the influence of the bourgeois liberalization trend of thought, a number of bourgeois news concepts have begun to run wild in the news media. Things like "media doctrine," "dissemination doctrine," and touting "popular spirit is higher than party spirit" and abstract "news freedom" have created ideological and theoretical havoc in the news media. As a result, during the disturbances of 1989 when spring was turning to summer, some comrades in the news media abandoned the standpoint of the party and the people, confused right and wrong, and failed to distinguish between friend and foe. Some publications played a role in adding fuel to the fire in the formation and development of the two disturbances.

To return to the present, why is it that the effect of the liberalization trend of thought generates such serious consequences for the news media? The main reason is that for the past several years the news media have relaxed the study of Marxist news theory, have relaxed party leadership over news work, and have relaxed education of news workers in the principles of party spirit. Any ideological ground that socialism does not occupy will inevitably be occupied by capitalism. When we relax, the bourgeois liberalization trend of thought will take over. Rectifying the political orientation of news work, bolstering the party spirit concept, and heightening awareness of being the party's mouthpiece requires not only diligent study of Marxist theory and criticism of bourgeois liberalization, but we must also devote efforts to strengthening our sense of responsibility to the party.

First, it is necessary to clarify further that party news work is an important integral part of our party's overall cause. Since our party is developing socialism and serving the people, this means that news work must

abide by the basic policy of serving socialism and serving the people. Adherence to this basic policy requires staunch, complete, and correct propagandizing of the party's stand and propagandizing the party's distinctively Chinese socialist theories, lines, and decisions. If we are the "media," we can only be media for linking the party to the masses and "media" that enable the masses to understand the party. If we are "disseminators," we can only disseminate socialist ideology and the party's stand. News work must be under the party's absolute leadership. Any thinking and behavior that seeks to weaken and shake off party leadership cannot be countenanced by either the party or the people. In practice, all news work must constantly reinforce the concept of "party" in party news work.

Second, it is necessary to make clear that news workers are party workers first and editors and reporters second. This means that party news workers must always take the party's side in all news activities, using party standards and party propaganda discipline requirements and restraints on themselves. They must do all possible to present the party's political stand, plans, and policies in an accurate and vivid way, and to relate them to all aspects of news practice including news presentation, communications, editorials, photographs, captions, and layout. As party news workers, they must obey the party in everything, be eager to help the party, do what the party requires, breathe in cadence with the party, and share the party's fate, actively, voluntarily, and conscientiously being good party mouthpieces in campaigning for the party's causes.

Third, it is necessary to make clear that those in charge in news units are representatives of the interests of the party and the people first and chief reporters second. They must proceed from the fundamental interests of the people, stand on the side of the party, be adept at observing and analyzing events from the heights, and possess a correct public opinion orientation. They must uphold consistency in being responsible to the party and responsible to the people, reconciling the discretionary authority of news units with solemn political and social responsibilities, resolutely carrying out the decisions of CPC Committees at a higher level, strictly observing propaganda discipline, resolutely maintaining a high degree of political, ideological, and operational unity with the party Central Committee, leading all editorial personnel in positive, active, and creative propagandizing and carrying out the party's stand, line, plans, and policies. They must strictly subordinate their leadership of news work to the leadership of the CPC Central Committee to ensure the political orientation of news work.

### B. Improvement of News Propaganda Work Requires the Correct Handling of the Following Several Relationships in News Practices

The main task in news work today is the accurate and timely propagandizing of the party's line, plans, and policies, striving to reflect the mainstream of real social

life, causing the mass of people to use the outstanding achievements in their creation of a new life to educate themselves, shaping a climate of public opinion that helps stabilize the situation. Fulfillment of this task will require that, in the course of improving news practice, we are adept at accurately handling the following several correlations.

1. The correlation between subordination to the overall situation and performing the special tasks of news work. News work is an important integral part of party work. In view of our party principle that the partial be subordinate to the whole and that a small part be subordinate to the overall, a premise in exercising the special character of news work must be to help the overall situation. As a party news worker, one must be adept at understanding the total situations, stand on the heights of the total situation, and proceed from support for the total situation to do a good job of news dissemination work. Stability is and will be for a long time our country's overall concern. Stability is above everything. Performance of every feature of news dissemination must be subordinate to stability, and subordination to stability requires focusing on the maintenance of our country's political stability, economic stability, social stability, and ideological stability. The performance of every aspect of news dissemination must abide by the principles of tranquillity, coordination, continuity, stability, and prudence. News reporting can only help stabilize this overall situation; it cannot add turmoil to it. The novel, the swift, and the lively can be sought only in the context of stability. One-sided pursuit of sensational results is to be guarded against by all means.

2. The correlation between the dominant theme and diversity. In news dissemination, firm grip must be taken on the main theme of our era. What is the main theme of our era? It is the constant demonstration of the superiority of socialism. This means the steady consolidation and development of the socialist economy in which public ownership is the centerpiece; it means the signal contributions that the mass of people have steadily created during the building of the four modernizations, reform, and opening to the outside world; and it means the new socialist life that our party has steadily created in leading the masses of people. This is the main theme of our era, and it is also, without doubt, the main theme of our news dissemination. However, social life is rich and varied; it exhibits diverse forms and contents. News workers must immerse themselves in real life. They must reflect the resounding and multicolored life of our era, organically unifying the main theme and the diversity. This unity of the main theme and diversity, as melodious as "large and small pearls falling on a jade plate," can be made into the most beautiful movement of the era only by our news dissemination.

3. The correlation between positive propaganda and criticism and exposure. Upholding a policy of positive propaganda for the most part, extolling the heroic achievements of party leadership of the masses in socialist modernization and in reform and opening to the

outside world, objectively, impartially, and genuinely reflecting the main stream and the essence of today's society naturally should be the main theme of our news dissemination, and must occupy the dominant position in the weighting of propaganda. Nevertheless, the policy of adhering to mostly positive propaganda does not mean that there should be no criticism and exposure of negative and odious things. News reporting that regularly criticizes and exposes negative and odious things, that has a clear-cut attitude about what should be advocated and what should be opposed, seems to possess vigor and combat-worthiness. However, criticism and exposure must be completely constructive. It should not be criticism for criticism's sake, or exposure for exposure's sake. It should not be for the purpose of parading odious things, but rather should focus on analysis of the reasons giving rise to these negative and odious things, discriminate between the mainstream and side issues, and both guide and encourage people to overcome and triumph over them. Such extolling of magnificent achievements and eulogizing of heroic undertakings of the age accompanied by the right amount of criticism and exposure is bound to play a positive role in encouraging healthy trends, attacking evil, and advancing work.

4. The correlation between instruction and readability. The party's news work is the mouthpiece of the party, the government, and the people. It bears responsibility for propagandizing, encouraging, and stimulating people to unite closely around the party and government to carry out the heavy duties of the four modernizations with one heart and one mind. Thus, news dissemination work must contain a strong element of instruction, but this instruction cannot detract from readability. Thus, we must vigorously improve our style of writing, overcome stereotyped writing, and improve propaganda techniques to present varied, lively, and colorful news to the readership, audience, and spectators so that they will enjoy hearing and reading it. This is the only way to bring into play the tremendous instructive role of news dissemination.

5. The correlation between social benefit and economic benefit. News dissemination must give first place to social benefit. This is a necessary duty in party news work. This is to say that every action of the news sector has to have social benefit as its highest standard, and from which it cannot waver under any circumstances. Selling space on the printed page, selling programs, running news for payment, resorting to the bizarre and novel in order to solicit readership, an audience, or viewers, or even publishing or broadcasting works, programs, or news of a base character, as well as engaging in unfair "moneymaking" practices of various kinds is wrong. "Economic benefits" thus gained are bound to have an adverse effect on the social benefit of news, as well as damage the image and prestige of the party and of news work. However, to place social benefits in the primary position does not mean not taking economic benefits into account. The key here is to use improvement of social benefits as the underlying premise in studying and considering economic benefits, and not the reverse.

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6. The correlation between strict observance of news discipline and taking the initiative and being creative. Without rules and regulations, there can be no harmony. News workers must be models in abiding by the Constitution and laws, in diligently carrying out the party's plans and policies, and in strictly observing news dissemination discipline. Use of the news media to express the

position, desires, and feelings of an individual or small group is positively not allowed. This is discipline that is determined by the party spirit principles of news work. Within these limitations, news workers have a broad field in which they can charge in every direction to make fullest use of their intelligence and wisdom, and to give full expression to their creativity and spirit of initiative.

### Review of Political Leanings of Student Leaders

90CM0120A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 213, 1 Apr 90 p 15

[Article by Liu Chun-hung (0491 0193 1347): "Mainlanders Prominent in the Democratic Progressive Party Leadership: The Political Inclination of Student Leaders at the Chiang Kai-shek Memorial"]

[Text] The student sit-in in front of the Chiang Kai-shek Memorial is a manifestation of recent political developments in Taiwan; it also illustrates the tensions between the people and the government. The Democratic Progressive Party [DPP] is cleverly using these students to achieve some otherwise-difficult goals, and it must be admitted that they have scored some victories.

In this Taipei version of the Tiananmen Incident, the student leaders assert that they are politically neutral and have no ties to political parties, but is this really the case? According to reporters on the scene, these are the key members of the student movement:

Ch'en Ch'i-yu [7115 0796 2509], National Taiwan University Sociology Department, New Youth Society [NYS] member

Lo Wu-ch'ang [7482 2976 2490], former director of Democratic Progressive Study Society, National Political University student, NYS member

Hsu Shih-chieh [6079 0013 0267], NYS member

Huang Chien-hsing [7806 1696 5281], NYS member

Lin Ti-chuan [2651 3336 1227], National Chengchi University History Department, NYS member

Ting Yung-yen [0002 0516 6056], National Chung Hsing University Law and Commerce Department, NYS member

Chien Li-chien [4675 4539 1696], National Yang Ming Medical College, NYS member

Tu Yi-ming [2629 5030 2494], Fu Jen Catholic University, Night School Study Society member

The first seven mentioned above are known as the Group of Seven. The Group of 13 [includes the aforementioned as well as the following]:

Fan Yun [5400 7189], National Taiwan University Sociology Department, NYS member

Cheng Wen-ts'an [6774 2429 3605], National Taiwan University, former editor of DEMOCRATIC PROGRESSIVE NEWS [MIN CHIN PAO 3046 6651 1032]

Lu Ming-chou [0712 2494 3166], Taipei Medical College, Democratic Study Society member

Lin Chih-p'ing [2651 5268 1627], Taipei Medical College, Democratic Study Society member

Tseng Juo-yu [2582 5387 1946], Chinese Cultural University, Democratic Study Society member

In addition, Tamkang University instructor Chou Ch'ing-t'ang [6650 1987 1048] is there constantly offering advice; he is secretary-general of the Society for the Promotion of Teachers' Rights, and is also a member of NYS.

It is widely known that the various student organizations to which the aforementioned key student activists belong, including NYS, Democratic Study Society, Night School Study Society, Society for the Promotion of Teachers' Rights, MIN CHIN PAO, and the Democratic Progressive Study Society, are all peripheral organizations of the DPP or organizations affiliated with the DPP.

Fan Yun, who has been called a "Taiwanese Chai Ling" [2693 3781], has been greatly influenced by the DPP. National Taiwan University students say that Fan Yun, a native of Jiangsu Province, graduated from the Taipei Municipality Number One Girl's High School. Her father, Fan Sheng [5400 3932], retired from the navy in 1987; her oldest sister, Fan Ch'ing [5400 1906], attended National Chengchi University, her second oldest sister, Fan Jung [5400 5554], is at Tunghai University, and her third oldest sister, Fan Ling [5400 3781], is studying at Ching Yi College of Liberal Arts and Sciences.

After entering National Taiwan University, Fan Yun joined its Mainland Research Society and met the Society's director, Lin Chia-lung [2651 0163 7893] (a DPP member); later she succeeded him as director and worked closely with her classmate, MIN CHIN PAO editor Cheng Wen-ts'an.

Fan Yun was deeply influenced by Lin and Cheng and, like a Red Guard play where one's relatives are sacrificed in the name of principle, she lectured on how her father suffered grievous harm due to the deceitful policies of the Kuomintang [KMT], and she apologized on behalf of her father to the Taiwanese people.

Later she became a member of the student movement; it is no exaggeration to say that this student movement has been guided from behind the scenes by the DPP.

Another clever method of the DPP, in addition to using students to oppose the KMT, is to carefully select students according to their origins and put the students who are mainlanders at the forefront. This helps to allay mainlanders' fear and suspicion, and also allows the DPP to plausibly argue that they even have mainlanders' support.

People can discern these students' political stance from their current activities. Taiwan newspaper reports imply that when KMT professors go to see the sit-in, they are greeted with jeers, but DPP professors are welcomed with applause.

Ho Te-fen [6320 1795 5358] and Ch'u Hai-yuan [4234 3189 3293], who led the activists to the president's

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office, have both been close to the DPP. Although both are members of the KMT, they keep only a nominal membership in it.

### Legitimacy of Recent Presidential Election Questioned

*90CM0120B Taipei HSIN HSIN WEN /THE JOURNALIST/ in Chinese No 159, 26 Mar 90 p 96*

[Text] On 19 March, in front of Chungshan Building in Yang Ming Shan, where a student demonstration was taking place, a perplexed Taipei citizen asked, "Is this the borough chief election?"

On the same spot two days later, Li Teng-hui was elected 8th president of the Republic of China with 641 votes, 95.96 percent of the total.

Out of these 641 votes, at least 570 were cast by elderly National Assembly delegates from the mainland, who have not been up for an election in over 40 years and who do not have even the slightest support of the people of Taiwan. When compared with the 1300 votes Gorbachev received in the recent Soviet presidential election, Li Teng-hui's presidency severely lacks legitimacy and a representative nature. This is the first absurdity of the Kuomintang [KMT] leading Taiwan into the nineties.

In order to win this presidential office, which has so little representation and legitimacy, the KMT spent over half

a year and countless sums of money. According to Chiang Chi-chou [5592 4764 6650] and other senior delegates, not a day passed that delegates were not wined and dined; each one received at least five [banquet] invitations, and each meal cost 2,000 to 3,000 yuan per person. It is estimated that these activities cost around 10 million yuan. This is the second absurdity.

Next, to succeed in maintaining a united front, the KMT adopted a very strict attitude and did not worry about criticism of "one party legislature, one party elections." They closed up the Yang Ming Shan area and had candidates reside in the Chungshan Building for security reasons; compare this with district elections for mayor and county magistrate, when delegates travelled about, with unfortunate results. Concerning this point, KMT National Assembly party affairs secretary Chu Shih-lih [2612 1102 3525] says that this greatly increased the number of votes cast and the number of favorable votes. This is the third absurdity.

In addition, in order to satisfy the National Assembly, they raised the fee for seats, and at a meeting to investigate revising the provisions, National Assembly delegates connived to increase their power and profits. This practice of using a national body to trade political advantages is the fourth absurdity.

Li Teng-hui's election came to pass in this absurd environment. How he will change from a borough chief into a president will be his greatest challenge.

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